Our Vision of Value

Sun Life Financial Services of Canada Inc.
Annual Report 2001
www.sunlife.com

Sun Life Financial

Sun Life Financial at a Glance

Sun Life Financial is a leading international financial services organization providing a diverse range of wealth accumulation and protection products and services to individuals and corporate customers. Tracing its roots back to 1871, Sun Life Financial and its partners today have operations in key markets worldwide, including Canada, the United States, the United Kingdom, Hong Kong, the Philippines, Japan, Indonesia, India, and Bermuda. As at December 31, 2001 the Sun Life Financial group of companies had total assets under management of CDN$352 billion.

Sun Life Financial Services of Canada Inc. trades on the Toronto (TSE), New York (NYSE) and Philippine (PSE) stock exchanges under ticker symbol "SLC".

At Sun Life Financial, our vision is to be a world-class provider of financial security to individuals over their lifetimes.
Our core values are:

Integrity
Operating with integrity to the very highest standards of business conduct.

Customer Focus
Always working with the customer's perspective in mind.

Excellence
Relentlessly pursuing excellence through the people we employ and in the work they do.

Adding Value
Providing products and services that add value for our customers and build value for our shareholders.

Overview

As at, or for the year ended, December 31, 2001

(in millions)	CDN$	US$	GBP
Shareholders' Net Income	882	555	382
Total Assets Under Management	351,747	221,225	152,271
Revenue	16,689	10,496	7,225
Exchange Rate (December 31, 2001)		1.59	2.31

The above figures are reported in Canadian dollars and converted at the December 31, 2001 exchange rate of 1.59 (USD) 2.31 (GBP).

Ratings[†]

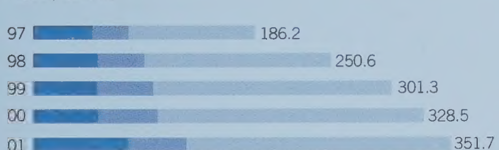
Measurement	Rating Agency	Rating
Financial Strength	A.M. Best	A++ (first of 16 rating levels)
	Fitch	AAA* (first of 24 rating levels)
	Moody's	Aa2** (third of 21 rating levels)
	Standard & Poor's	AA+*** (second of 21 rating levels)

† Represents ratings assigned to Sun Life Assurance Company of Canada
* Credit watch negative
** With positive outlook
*** With negative outlook

Sun Life Assurance Company of Canada enjoys ratings that place our organization at the top of the financial sector in North America.

Assets Under Management

As at December 31
(CDN $ billions)



- General Funds
- Segregated Funds
- Mutual and Other Funds

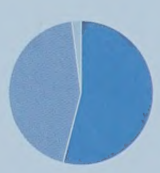
Shareholders' Net Income

For the year ended December 31
(CDN $ millions)

*On an adjusted basis

Revenue by Industry

2001 Total Revenue – CDN $16.7 billion



- Wealth Management – 54%
- Protection – 44%
- Corporate and Other – 2%

Total Capitalization

As at December 31
(CDN $ millions)

- Subordinated Debt
- Cumulative Capital Securities
- SLEECS
- Equity/Surplus

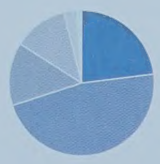
Return on Shareholders' Equity

For the year ended December 31

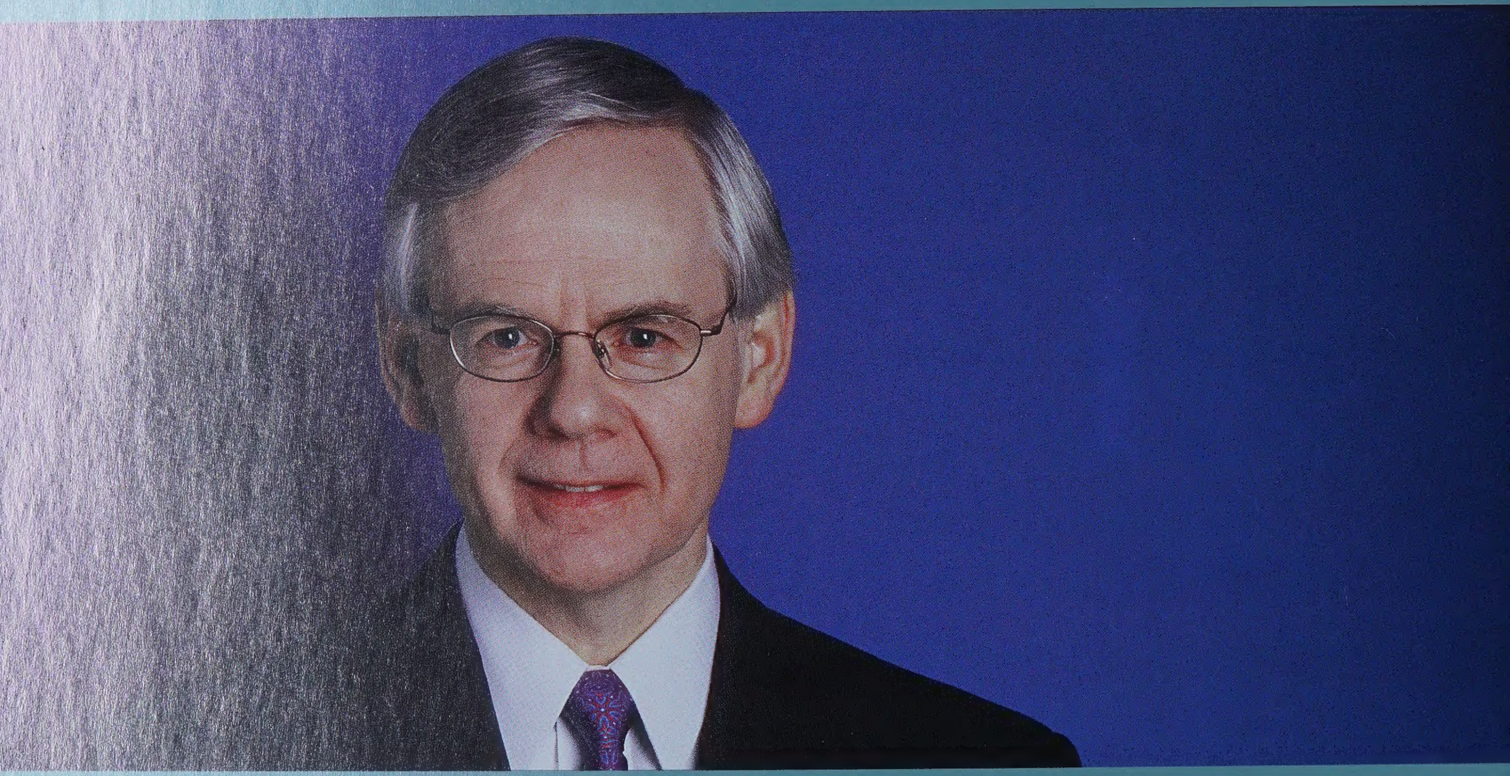
*On an adjusted basis

Revenue by Segment

2001 Total Revenue – CDN $16.7 billion



- Canada – 23%
- U.S. (excl. MFS) – 47%
- MFS – 14%
- U.K. – 12%
- Asia – 3%
- Other – 1%



Chairman & Chief Executive Officer

Letter to Shareholders

For Sun Life Financial, 2001 was a year of growth and strategic rationalization.

Overall, internal growth was respectable, and in some cases exceptional, even with tremendous revenue pressure in certain business segments. We remain focused on growing market share by developing innovative products for specific markets, expanding our distribution channels, and providing superior customer service. In North America, our goal is to be in the top three in our Canadian markets and in the top 10 in the U.S. markets in which we participate.

Complementing Sun Life Financial's organic growth were acquisitions that meet our disciplined criteria for strategic fit. Our acquisitions in the United States of Keyport Life Insurance and Independent Financial Marketing Group (IFMG) from Liberty Financial were a high point of the year. With Keyport, we become one of the top competitors in the important annuity business in the U.S. and strengthen Sun Life Financial's core wealth management profile. IFMG was the largest third party marketer/broker dealer in the U.S. in volume of bank-sold investment products for the third year in a row.

On December 17, 2001, we announced an agreement to combine operations with Clarica Life Insurance Company of Waterloo, Ontario. As of the date of writing, Clarica's shareholders and voting policyholders had approved the transaction and we were awaiting regulatory approval. Our combined Canadian operations will have leading positions in most of our Canadian market segments. This transaction is consistent with our strategy to continue strengthening Sun Life Financial's leadership positions in key North American markets and to create an even stronger home base to support international expansion.

The other side of the growth coin is strategic rationalization. In the United Kingdom, we have scaled back operations where we were unable to achieve target levels of critical mass and profitability. Discontinuing our direct sales force in February 2001, and subsequently selling Sun Bank and SLC Asset Management, illustrate our willingness to aggressively reconfigure our business profile and re-deploy capital in response to evolving business conditions.

Sun Life Financial's business model – a balanced combination of wealth management income and protection earnings – is designed to provide the strategic diversification required to operate successfully over the long term by combining relatively stable protection earnings with the more efficient use of capital and growth potential that characterize the wealth management business. With respected brands, a capacity to innovate and broad distribution capabilities, we are well positioned to benefit from demographic trends that shape our selected markets.

In North America, the well-documented phenomenon of aging "baby boomers" has produced challenges for the insurance sector and opportunities for wealth managers. Our successful wealth management operations position us to grow market share in North America, both internally and through strategic acquisitions, and to export our wealth management expertise to selected international markets in the longer term.

Much of our longer-term international attention is focused on developing markets in Asia, where protection and ultimately wealth accumulation are becoming priorities for an emerging middle class after generations of limited market demand for household financial planning. For example, India is currently the 20th largest international life insurance market, but has the world's second largest population with more than one billion people. In this rapidly growing market, Sun Life Financial has a very capable partner in the Aditya Birla Group. We entered the mutual fund business in India in 1999 and launched life insurance operations in early 2001.

We are also becoming increasingly active in China. We have revitalized our presence in the Special Administrative Region of Hong Kong through an exclusive bancassurance partnership with CITIC Ka Wah Bank. Preparations are also underway to launch life insurance operations in Tianjin with our joint venture partner, China Everbright Group. While Sun Life Financial is taking a longer-term view of its investments in Asia, a meaningful contribution to the organization's aggregate financial results is expected in the medium term.

We extend our deepest sympathy to the families and friends of those who were directly affected by the tragic events of September 11th. We were very fortunate that there were no casualties among Sun Life Financial employees, and that our business losses were nominal. The contributions that Sun Life Financial and its employees made to the relief effort symbolized the enormous sense of loss felt by our employees around the world.

For the third successive year MFS, our flagship investment management subsidiary in the U.S., was included in Fortune Magazine's list of the 100 best companies to work for. Esther Tan, President of Sun Life Financial's operations in the Philippines, was named the Outstanding Woman in Business by The Filipino-Chinese Federation of Business and Professional Women, an award that was presented to her by Philippines President Macapagal Arroyo. These accomplishments are indicative of the very high quality of the individuals who work throughout our organization.

I extend the organization's sincere thanks to Alfred Powis O.C. and Jeannine Guillevin Wood O.C., both of whom retired from the Board during the year. These individuals made tremendous contributions to the stewardship of the organization over a period of 29 years of service in the case of Mr. Powis, and 12 years of service in the case of Mrs. Guillevin Wood. Another much valued director, John M. MacLeod, passed away on May 18, 2001 after eight years on our Board. His contribution is missed by all of us.

Sun Life Financial welcomes Madeleine Paquin to the Board. Ms. Paquin is President and Chief Executive Officer of Logistec Corporation, a cargo handling and marine services company.

We have achieved a number of important accomplishments since our initial public offering. Our cost reduction targets have been achieved ahead of schedule and we have addressed legacy issues in the United Kingdom. Excess capital has been effectively re-deployed. Despite the volatile state of the economy, we were successful in raising new capital with an innovative issue of Sun Life ExchangEable Capital Securities. Most importantly, we have made significant progress on our mandate to create shareholder value by expanding and strengthening our wealth management business, growing our higher return protection business lines and pursuing expansion in strategic markets.

As we look back on the challenges, changes and accomplishments of 2001, I would like to express our appreciation and sincere thanks to our shareholders, distributors and employees for their continued support.

Donald A. Stewart.

Donald A. Stewart
Chairman & Chief Executive Officer

V

balanced business model

Our balanced business model enables us to achieve steady growth.

Our strategic business model, which balances protection and wealth management, defines a key strength. We view this value-creating balance of consistent performance, plus attractive growth as an important point of differentiation within the financial services sector. This blend of performance characteristics results from a deliberate strategy of maintaining a protection business of sufficient weight to stabilize earnings when our wealth management businesses come under pressure.

A

international leader

Our skill sets, developed and honed in our home markets, position us for strong international growth.

Today, Sun Life Financial's growth strategy is focused on selected markets in North America. Looking forward, Sun Life Financial is well positioned for significant growth based on strategic investments in some of the world's most exciting markets. In India, we were one of the first international players to enter the domestic insurance market, complementing our existing mutual fund joint venture. Preparations were underway to launch life insurance operations in China as 2001 came to a close. Our longer-term focus is to build on Sun Life Financial's established strengths, honing our responsiveness to new market realities, and seeking out emerging opportunities in areas where demand shows attractive long-term potential.

strategic growth

We are focused on growth opportunities that fit our disciplined strategy of creating shareholder value.

Our strategy recognizes the importance of size and scale in highly competitive and consolidating markets. Sun Life Financial's business profile has evolved from a collection of smaller businesses into fewer, yet larger businesses that have the potential to be leaders in their markets. Product innovation and enhanced distribution capabilities drive our growth in these markets. To complement strong internal growth, we will continue to pursue selective acquisitions in the consolidating North American financial services sector. The Keyport and IFMG acquisitions illustrate the power of strategic fit and financial discipline to drive earnings growth.

U

delivering
on commitments

The commitments made during our initial public offering have been met, and we remain committed to achieving our growth targets as we move forward.

In reporting on its first full year as a public company, Sun Life Financial delivered tangible results consistent with its stated commitments. These results include: achieving our target figure of cost savings a full year ahead of schedule, our effective re-deployment of capital, and progress on the resolution of legacy issues. Sun Life Financial's strategy for building shareholder value is to establish clear financial goals relevent to a carefully defined growth strategy, and then to deliver those results.

E

community partnership

[illegible] our core values reflect our strong belief in contributing to the communities in which we do business and supporting initiatives that create value for all our stakeholders.

At Sun Life Financial, we believe our corporate responsibility extends beyond our day-to-day business practices. Our long history of providing financial support to many worthy causes around the world is a source of pride. Today, we support a wide range of non-profit organizations that offer a variety of services in areas such as health, education, culture and the environment.

In Canada, we made a major gift to Dalhousie University to establish the Sun Life Financial Chair in Adolescent Mental Health. In response to the tragic events of September 11, we made a special gift to the United Way of New York. In India, we provided funding to purchase medical supplies and clothing for the victims of the Gujarat Earthquake. We encourage and appreciate the contributions made by our employees when they volunteer their time to support programs and activities that have made a difference to the lives of thousands of people and their communities.

Financial Review

Forward-looking Statements: [illegible] of financial performance. [illegible]

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

(in millions of Canadian dollars, except earnings per share)	2001	2000	1999
SHAREHOLDERS' NET INCOME(1)	882	792	649
BASIC EARNINGS PER SHARE(1)	2.08	1.90	1.62
RETURN ON SHAREHOLDERS' EQUITY(1),(2)	12.8%	13.1%	11.7%
TOTAL REVENUE	16,689	16,206	14,741
FEE INCOME	3,215	3,317	2,606
PREMIUMS, DEPOSITS AND FUND SALES			
Premium Revenue	9,354	9,113	8,022
Segregated Fund Deposits	5,851	8,318	4,137
Mutual Fund Sales	39,466	45,614	38,123
Managed Fund Sales	31,953	25,869	13,939
Total Premiums, Deposits and Fund Sales	86,624	88,914	64,221
ASSETS UNDER MANAGEMENT *(At December 31)*			
General Fund Assets(2)	80,328	55,010	54,241
Segregated Fund Net Assets(2)	48,544	49,533	46,524
Mutual Fund and Other Assets Under Management	222,875	223,990	200,538
Total Assets Under Management	351,747	328,533	301,303
CAPITAL *(At December 31)*			
Subordinated Debt	776	749	734
Cumulative Capital Securities	954	900	870
Sun Life ExchangEable Capital Securities (SLEECS)	950	–	
Total Equity(2)	7,725	6,517	5,690
Total Capital	10,405	8,166	7,294
MCCSR RATIO *(At December 31)*	190%	295%	262%

QUARTERLY INFORMATION

	2001				2000			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	4,885	3,526	3,945	4,333	4,036	4,249	4,172	3,749
Shareholders' Net Income(1)	253	215	212	202	211	203	197	181
Earnings per Share(1)	0.59	0.51	0.50	0.48	0.50	0.48	0.47	0.45
Total Assets Under Management	351,747	299,198	326,448	316,279	328,533	344,829	329,702	321,414

(1) Amounts for periods prior to demutualization are on an adjusted basis, as discussed in detail in the Net Income Adjustments section on page 19.

(2) In Q4 2001, the Company adopted new standards issued by the Canadian Institute of Actuaries for the valuation of policy liabilities of life insurers. As a result, the Company has restated its general and segregated fund assets and shareholders' equity for 2000 and 1999. Return on shareholders' equity ("ROE") for both years has also been recalculated based on restated shareholders' equity. See Note 3 to the Company's Consolidated Financial Statements for details.

CREDIT RATINGS† – FINANCIAL STRENGTH

(as at December 31, 2001)

A.M. Best	A++
Fitch	AAA *
Moody's	Aa2**
Standard & Poor's	AA+ ***

† Represents ratings assigned to Sun Life Assurance Company of Canada.
* Credit watch negative.
** With positive outlook.
*** With negative outlook.

Overview of Business Segments

Sun Life Financial Services of Canada Inc. and its consolidated subsidiaries (the "Company") operate under a strategic business model that balances growth with earnings stability. Despite the increasingly integrated nature of many of the products offered by the Company, its overall business generally comprises two principal segments, wealth management and protection. Revenue and expenses not directly attributable to wealth management or protection are reported in Corporate and Other.

1) Wealth Management comprises the Company's asset management, mutual fund, pension, annuity and brokerage operations;

2) Protection or insurance comprises the Company's individual life, and group life and health insurance operations.

Wealth Management represents the Company's higher growth business segment, with $315.2 billion in assets under management as at December 31, 2001, representing 90% of the Company's total assets under management. In 2001, wealth management accounted for 56% and 55%, respectively, of the earnings and revenue for the Company's combined wealth management and protection businesses. This business has achieved a compound annual growth rate of 22% in assets under management and 24% in fee income over the five-year period, 1997 to 2001. The wealth management business is driven principally by: (i) investment advisory fees, (ii) distribution and servicing fees, (iii) mortality and expense fees, (iv) annuity premiums, and (v) net investment income on general fund assets held primarily in the pension and fixed annuity businesses.

Protection represents a steady and consistent growth business segment for the Company, contributing 44% and 45%, respectively, of the earnings and revenue for the combined wealth management and protection businesses in 2001. The premium income from this business recorded a compound annual growth rate of 7% in the five-year period 1997 to 2001. In the protection business, the principal sources of revenue are: (i) premiums earned on individual life, group life and group health insurance contracts, and (ii) net investment income on assets supporting actuarial liabilities in the protection business.

The profitability of the Company's wealth management and protection businesses depends in large part on: (i) the amount and composition of assets under management, (ii) the management of product pricing, (iii) mortality and morbidity rates, (iv) expense management, (v) the maintenance of spreads between credited rates and investment returns, (vi) surrender and lapse rates, and (vii) the management of market and credit risks. Additional external factors such as changing legislation and regulations of the financial services industry may also affect the Company's profitability.

The Company operates in four principal geographic areas: Canada, the United States, the United Kingdom and Asia. Its principal products and services in each of these geographic areas are summarized in the following table.

PRODUCTS AND SERVICES BY GEOGRAPHIC AREA

	Canada	United States	United Kingdom	Asia
WEALTH MANAGEMENT				
Individual annuity and savings products	●	●	●	
Group pensions and retirement products	●	●		
Mutual funds and investment products	●	●		●
Asset management services	●	●		
Brokerage services	●			
PROTECTION				
Individual life	●	●	●	●
Group life and health	●	●	●	●

The Company's wealth management business in Asia primarily comprises mutual fund operations in India and the Philippines. The Company's Asian protection business primarily comprises individual insurance in the Philippines, Hong Kong, Indonesia and India, and group insurance in the Philippines and India.

In addition to the operations in the Company's principal geographic areas shown above, the Company is involved in the pension management business in Chile through its investment in Cuprum, one of Chile's leading pension fund administrators.

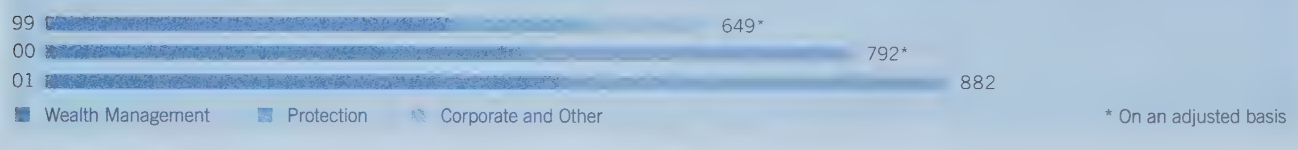
Consolidated Results of Operations

The global economy experienced a dramatic slowdown and significant market volatility in 2001. The tragic events of September 11th shocked the already weakening economy. Despite these challenges, the Company reported a second year of record earnings since demutualization in March 2000. The Company's ability to maintain a strong financial performance against a difficult economic backdrop, reflected the strength of its diversified and well-balanced business franchises.

SHAREHOLDERS' NET INCOME

For the year ended December 31, 2001, shareholders' net income was $882 million, representing an increase of $90 million or 11% over the adjusted earnings of $792 million in 2000[1]. Earnings per share were $2.08, up 9% from $1.90 in 2000. The strong earnings performance reflected the Company's well-balanced business model with its strategic combination of wealth management and protection businesses. During 2001, the relative strength of the Company's protection business compensated for the volatility in its wealth management operations. The excellent earnings result in 2001 validates the Company's strategy to balance the higher long-term growth prospects of wealth management, with the stability of protection earnings.

SHAREHOLDERS' NET INCOME
(in millions of Canadian dollars)



The protection business posted strong earnings of $407 million for the year ended December 31, 2001, up $87 million or 27% relative to $320 million in 2000. The solid earnings performance was broadly based and consistent in most of the Company's protection business lines. The Company's U.S. insurance businesses, in particular, achieved strong earnings momentum, due largely to improved pricing and effective expense management. The earnings contribution from the Company's U.K. individual insurance operations increased significantly, reflecting the favourable impact of management's decision to exit the direct sales force distribution business in the U.K. in early 2001.

Despite economic uncertainty and difficult capital markets in 2001, the wealth management business reported solid earnings of $513 million, up $44 million or 9% compared to $469 million in 2000. Keyport Life Insurance Company ("Keyport"), acquired by the Company on October 31, 2001, contributed $27 million to the improved results. The earnings pressures from equity market declines in the year were mitigated by the Company's focused efforts to grow market share and by its vigorous cost containment measures.

Return on shareholders' equity ("ROE") was 12.8%, down from 13.1% in 2000. The decrease in ROE was attributable to the fact that the impact of earnings growth was more than offset by the Company's increased equity base in 2001. The Company accumulated significant excess funds during 2001 in anticipation of the acquisition of Keyport. Due in large part to the uncertainty of the Keyport closing date and in order to maintain financing flexibility, these excess funds were primarily invested in relatively low yield short-term securities for a large part of the year, adversely affecting the Company's overall ROE performance in 2001. Lower ROE also reflected the unfavourable effect of currency translation, due primarily to the appreciation of the U.S. dollar relative to the Canadian dollar in 2001, which increased the Company's equity by $257 million, but had minimal impact on earnings.

The Company is not directly involved in the Property and Casualty ("P&C") insurance business, and has no significant indirect exposures on a reinsurance basis. The Company does not underwrite individual life insurance policies in the State of New York, and has only a relatively small group risk exposure. Consequently, the Company's earnings in 2001 were not materially affected by the tragic events of September 11, 2001, and the Company does not expect to incur any material losses in future years related to the September 11th events.

(1) Adjusted earnings are discussed in detail in the Net Income Adjustments section.

PROPOSED TRANSACTION TO ACQUIRE CLARICA

On December 17, 2001, Sun Life Financial Services of Canada Inc. and Clarica Life Insurance Company ("Clarica") announced a definitive agreement to combine operations to form a larger and stronger international financial services organization. On March 6, 2002, Clarica's shareholders and voting policyholders voted in favour of this transaction. Subject to approval by the Minister of Finance and by relevant regulators in Canada, the United States and other jurisdictions in which the Company and Clarica operate, the Company expects to close the transaction in the second quarter of 2002.

Pursuant to the terms of the transaction, Clarica will become a wholly-owned subsidiary of Sun Life Financial Services of Canada Inc. and Clarica's common shareholders will exchange each Clarica share for 1.5135 common shares of Sun Life Financial Services of Canada Inc. The estimated value of this transaction for accounting purposes is approximately $6.8 billion.

The acquisition of Clarica is consistent with the Company's strategy to continue strengthening its leadership positions in key North American markets and to create an even stronger home base to support international expansion. The combined organization will be the largest life insurance organization in Canada by virtually all measures including revenue, earnings and assets under management, and will be one of the leading publicly-traded North American life insurers, measured by market capitalization. It will have a leadership position in all major product lines in the Canadian life insurance industry and will have the largest customer base in Canada with approximately 7 million Canadian customers.

The proposed combination will create a leading Canadian financial services organization with enhanced products, expanded distribution channels, greater management depth and lower cost structures. It will strengthen the Company's position to respond to opportunities and developments in an industry in which critical mass and market presence are increasingly important. Management believes that this transaction will enable the Company to deliver greater economic value to its customers and shareholders.

ACQUISITION OF KEYPORT AND INDEPENDENT FINANCIAL MARKETING GROUP

The Company completed the acquisition of Keyport and Independent Financial Marketing Group, Inc. ("IFMG") on October 31, 2001. Keyport is a U.S.-based provider of fixed and variable annuities with world-class annuity expertise and innovative products. Keyport had approximately 300,000 outstanding annuity contracts and $29.7 billion in assets under management as at December 31, 2001. IFMG is a leading distributor of annuities and mutual funds through financial institutions across the United States. In 2001, for the third year in a row, it was ranked first in the sale of annuity products through banks and had full year proprietary sales of $2.3 billion.

The acquisition of Keyport and IFMG has significantly enhanced the Company's competitive position, placing it among the top providers of individual annuity products in the U.S. market. As a result of this acquisition, the Company has significantly broadened its annuity product portfolio and considerably enhanced its distribution capabilities. The combination of the Company's existing U.S. annuity business with Keyport and IFMG will generate significant operating and revenue synergies and will form a strong foundation for the Company's continued growth in the United States.

The aggregate purchase price for Keyport and IFMG was US$1.7 billion (approximately $2.7 billion) and was paid in cash. To fund this purchase, the Company used excess capital of approximately $1.4 billion and issued $950 million of innovative Tier 1 capital and $330 million of new equity. The Company's ability to undertake such a large scale financing in a difficult capital market environment reflected the strong confidence of the investment community in the Company's financial and operational strengths. This transaction was accounted for using he recently adopted accounting standards for business combinations, which results in no amortization of the goodwill associated with the purchase.

RATIONALIZATION OF UNITED KINGDOM OPERATIONS

The Company has experienced significant challenges in the United Kingdom. In February 2001, the Company concluded that its U.K. operations, under the existing business model, were unlikely to meet their long-term financial objectives and subsequently embarked on a strategic initiative to rationalize its U.K. business profile.

In March 2001, the Company exited the direct sales force distribution business and stopped selling its individual life insurance and pension products to new customers. This strategic move allowed the Company to focus on realizing the underlying value of its U.K. in-force individual life and pension policies. In January 2002, the Company reached an agreement with the Marlborough Stirling group, a U.K.-based software and service provider specializing in financial services sectors, to outsource the administration of its in-force policies in the individual business effective March 2002. This agreement will enhance the Company's strategic flexibility in the U.K. and will enable the Company to minimize operating risks and further reduce per policy costs.

In late 2001, the Company sold its banking subsidiary, Sun Bank plc ("Sun Bank"), and its asset management unit, SLC Asset Management Limited ("SLCAM"). The disposition of these two business units enabled the Company to re-deploy a substantial amount of capital from the U.K. operations to support growth in its core geographic markets. The net proceeds from the sales of Sun Bank and SLCAM were $144 million and $242 million, respectively, and the Company realized total after-tax gains of $125 million. These gains were largely offset by outsourcing and restructuring related costs of $88 million, net of taxes, arising from the U.K. rationalization initiative and costs of $30 million, net of taxes, associated with the early redemption of certain subordinated debt, resulting in a net gain of $7 million.

The Company has a strong presence in the group protection business in the United Kingdom where it ranks number 3, measured in premium income. The Company also maintains a governance function to ensure the Company's fiduciary, policyholder and regulatory obligations are met. As a result of this rationalization initiative, the number of employees in the U.K. operations, excluding the termination of the Company's U.K. sales force, decreased by 703 or 48% to 761 at the end of 2001. The sales force of 810 was terminated in March 2001 when the Company exited the direct sales force distribution business. The number of U.K. employees will be further reduced to approximately 150, mostly in the Company's group insurance business, by the end of 2002.

ASSETS UNDER MANAGEMENT

The Company's assets under management comprise general funds, segregated funds, and mutual and managed funds. Managed funds represent institutional and other third-party assets that are managed or administered by the Company. Total assets under management were $351.7 billion at December 31, 2001, compared to $328.5 billion at December 31, 2000.

The Company's general fund assets increased to $80.3 billion, up $25.3 billion or 46% from the 2000 level. This increase primarily comprised $25.7 billion contributed by Keyport and $1.8 billion gained from currency translation impact of the strengthening U.S. dollar and the British pound relative to the Canadian dollar. These increases were partially offset by a reduction of $2.6 billion resulting from the divestiture of Sun Bank and SLCAM.

The Company's segregated fund assets dropped slightly to $48.5 billion as at December 31, 2001 from $49.5 billion as at December 31, 2000. The acquisition of Keyport contributed $4.0 billion of variable annuity (or segregated fund) assets. In addition, segregated fund assets increased by $2.0 billion resulting from net sales during the year and $1.8 billion resulting from the strengthening U.S. dollar and the British pound relative to the Canadian dollar. These increases were, however, more than offset by a reduction of $6.5 billion in asset value due to market declines and $2.2 billion related to the divestiture of SLCAM.

The Company's mutual, managed and other assets under management decreased to $222.9 billion, down $1.1 billion from the December 31, 2000 level. The declines of global equity markets in 2001 resulted in a decrease of $37.8 billion in assets under management, while the divestitures of SLCAM and Sun Bank reduced assets by $2.9 billion. These decreases were largely offset by $28.6 billion from net sales of mutual and managed funds and $11.1 billion gained primarily from currency translation impact of the strengthening U.S. dollar relative to the Canadian dollar. The Company had $2.3 billion of securitized assets as at December 31, 2001, compared to $1.8 billion as at December 31, 2000. These securitized assets were primarily in the form of commercial mortgage-backed securities.

REVENUE

For the year ended December 31, 2001, total revenue increased to $16.7 billion, up $483 million or 3% from $16.2 billion in 2000. The Company's strong performance in insurance premiums and higher investment income were largely offset by decreased annuity premiums and fee income. Life insurance premiums grew by $294 million or 9%, primarily reflecting increased sales of universal life products in the United States and group life products in Canada. Health insurance premiums increased by $122 million or 9%, due primarily to strong sales and improved pricing of group health products in the United States. Investment income was up $344 million or 9%, reflecting the contribution of the Keyport operations and the pre-tax gains on the sales of Sun Bank and SLCAM. Annuity premiums, however, decreased by $175 million or 4% relative to 2000. The decrease was due primarily to lower sales of investment products and annuity products with the dollar cost averaging ("DCA") feature in the United States. These declines were partially offset by annuity premiums of $716 million generated by Keyport. The decrease in sales of DCA products was consistent with the overall weakness in the U.S. annuity market in 2001. Fee income also declined by $102 million or 3% as a result of a lower average level of assets under management in fee-based businesses relative to 2000.

BENEFIT PAYMENTS AND EXPENSES

The Company has a variety of variable and fixed payment obligations and expenses that impact overall profitability.

Payments to policyholders, beneficiaries and depositors were $6.8 billion, up $332 million or 5% from 2000. Increased payments of $619 million due to the acquisition of Keyport were partially offset by lower maturities and surrenders in other operations. Transfers to segregated funds increased marginally in 2001, reflecting the slowdown of sales of DCA annuity products in the United States. The increase in actuarial liabilities was up slightly from the 2000 level of $1.6 billion as higher insurance sales and Keyport's annuity sales were offset by lower sales of DCA annuity products and investment products in other U.S. operations.

Commission expenses decreased marginally to $1.6 billion in 2001, as lower annuity sales were mostly offset by increased sales of life and health insurance products.

Operating expenses were $2.5 billion, up $78 million from 2000. The increase was attributable to $195 million related to U.K. outsourcing and restructuring activities, $23 million related to the acquired Keyport and IFMG operations and $54 million resulting from the unfavourable impact of currency translation. Excluding these increases, operating expenses were $194 million below the 2000 level, reflecting the Company's continued efforts to reduce costs. The operating expenses to revenue ratio in Massachusetts Financial Services Company ("MFS") decreased to 45% from 46% in 2000, as a result of MFS' proactive cost control measures in response to volatile market conditions. In the protection business, the operating expenses to premium revenue ratio declined to 13% from 15% in 2000. The decreased expense ratio was primarily attributable to improved cost structures in the Company's operations.

Interest expenses increased by $9 million to $168 million in 2001. The increase was largely a result of the strengthening U.S. dollar relative to the Canadian dollar, as most of the Company's debt is denominated in U.S. dollars.

Income taxes on operating income were $301 million in 2001, compared to $379 million in 2000. The Company's consolidated effective income tax rate for 2001 was 24.1%, compared to 30.4% for 2000. The lower effective tax rate in 2001 was primarily attributable to the effect of favourable settlements of outstanding tax issues.

IMPACT OF CHANGES IN ACCOUNTING POLICIES

The Company adopted certain new accounting standards and policies in 2001 as detailed in Note 3 to the Company's Consolidated Financial Statements. The adoption of these standards had no material impact on the Company's financial results in 2001.

Business Combinations: On July 1, 2001, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") for business combinations. The new standards, which are applicable to acquisitions completed on or after July 1, 2001, require that acquisitions of businesses be accounted for using the purchase method, and that goodwill and intangible assets with indefinite lives arising from these acquisitions not be amortized. These new standards were applied to the Company's acquisition of Keyport and IFMG.

Pursuant to these new standards, in 2002 the Company discontinued the amortization of goodwill and intangible assets with indefinite lives arising from acquisitions prior to July 1, 2001. The impact of this change is not expected to be material to the Company's future financial results. For the year ended December 31, 2001, the Company recorded goodwill amortization of $19 million.

Under the new accounting standards, all goodwill and intangible assets with indefinite lives will be subject to a periodic impairment test. Any excess of carrying value over fair value will be charged to income when the impairment is determined.

Actuarial Liabilities: On October 1, 2001, the Company adopted the new standards issued by the Canadian Institute of Actuaries for the valuation of policy liabilities of life insurers in which the policy premium method was replaced by the Canadian asset liability method. This change in accounting policy was applied retroactively and resulted in certain restatements of previously reported retained earnings/surplus, actuarial liabilities and segregated funds net assets.

NET INCOME ADJUSTMENTS

On March 22, 2000, Sun Life Assurance Company of Canada completed the conversion from a mutual company to a stock company, and became a wholly-owned subsidiary of Sun Life Financial Services of Canada Inc. Shareholders' net income for the year ended December 31, 2001 reflected the effect of Sun Life Financial Services of Canada Inc. being a stock company for a full reporting year. For comparison purposes, shareholders' net income for both the years ended December 31, 2000 and 1999 has been computed on an adjusted basis, which represents earnings that would have been attributable to shareholders if Sun Life Financial Services of Canada Inc. had been a stock company since January 1, 1999. Shareholders' net income for 1999, as outlined in the following table, has also been adjusted for special provisions in connection with the Company's pension business in the United Kingdom, losses from discontinued reinsurance operations, and gains on the sale of shares of MFS.

NET INCOME ADJUSTMENTS

(in millions of Canadian dollars)	2001	2000	1999
TOTAL NET INCOME	881	802	164
Net Income (Loss) Attributable to Participating Policyholders[1]	(1)	10	68
ADJUSTMENTS			
U.K. Provisions and Other Unusual Items	–	–	410
Loss from Discontinued Operations	–	–	170
Net Gain on Sale of MFS Shares to Employees	–	–	(27)
Total Adjustments	–	–	553
SHAREHOLDERS' NET INCOME, AS ADJUSTED	882	792	649

(1) Represents net income attributable to participating policyholders. Amounts for periods prior to demutualization are on an adjusted basis.

The Company made total provisions of $410 million in 1999 as a result of liabilities to customers arising from prior pension sales and annuity rate guarantees in the United Kingdom. Based on the current guidelines of the U.K. regulators, the Company believes that the pension sales provisions, taken in 1999 and prior years, are sufficient to cover its underlying liabilities. As a result, additional provisions were not required in either 2000 or 2001. The Company incurred a loss of $170 million in 1999 in its reinsurance business which was discontinued at the end of 1999. Shareholders' net income in 1999 reflected adjustments for the losses from these discontinued reinsurance operations. The Company recorded after-tax gains of $27 million, in 1999, on the sale of common shares of MFS to certain employees of MFS.

OUTLOOK

The Company remains committed to its objective of being among the top 10 providers in the U.S. and Asia, and a leading provider in Canada, of products and services in each of its chosen markets: for wealth management services, the North American individual annuity and mutual fund markets; and for protection services, the North American and emerging Asian markets. With the acquisition of Keyport in 2001, the Company has taken a significant step towards its goal. Going forward, the Company expects to continue to play an active role in the ongoing consolidation in the North American financial services industry with a disciplined financial approach focusing on the creation of shareholder value. The Company also expects to continue expansion in its existing Asian markets in accordance with its well-defined long-range growth plans for those markets, and MFS is increasing its presence in the European markets with a particular focus on the United Kingdom retail and institutional marketplace.

With the enactment of new financial services legislation in Canada in late 2001, the Company believes that industry consolidation will accelerate, particularly in the Canadian life insurance sector. In the face of the changing regulatory and business environment, the Company will continue to solidify its stronghold in its home market by leveraging its operating competencies and financial strength. The proposed combination with Clarica reflects management's resolve to build an even greater Canadian franchise and a stronger home base from which it can expand internationally.

On the operational front, a priority for management in 2002 is to ensure a full integration of the Keyport operation and to make the Company a premier provider of individual annuities in the United States. The Company will strive to build even stronger customer relationships by providing value-added products and services. In addition, management will vigorously pursue operational efficiency and capital optimization to enhance financial performance.

Upon the completion of the proposed Clarica acquisition, management will ensure that the integration process progresses quickly and efficiently. The combined organization will leverage the strengths of both organizations and will focus on delivering the economic benefits of this acquisition that have been promised to customers and shareholders.

The North American economy, which once again demonstrated its resilience in this cycle of economic downturn, has shown some signs of recovery. Against the backdrop of a recovering economy moving forward, the Company has a cautiously positive outlook for 2002. The Company believes its wealth management business is well positioned to leverage earnings growth opportunities if there is a run-up of capital markets. Management believes its long-term growth momentum over the business cycle remains strong even if the current economic slowdown is prolonged.

Canadian Operations

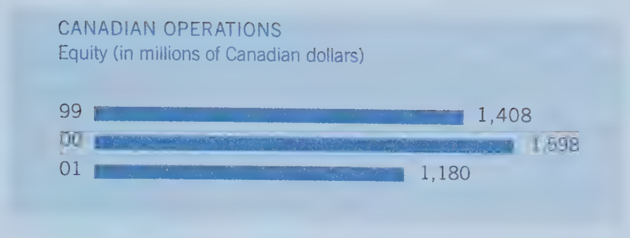
The Company's Canadian operations offer a full range of wealth management and insurance products and services. The wealth management business includes: (i) group pension and annuity products offered through the Company's group retirement services business unit, (ii) mutual funds and asset management services primarily conducted by the Company's wholly-owned Spectrum Investment Management Limited ("Spectrum") and 58%-owned McLean Budden Limited ("McLean Budden") subsidiaries, and (iii) individual annuities and brokerage services. The protection business comprises (i) individual insurance, including universal life, term life, non-participating and participating whole life insurance products, and (ii) group life and health insurance, including life insurance, short and long-term disability insurance, and dental and extended care plans.

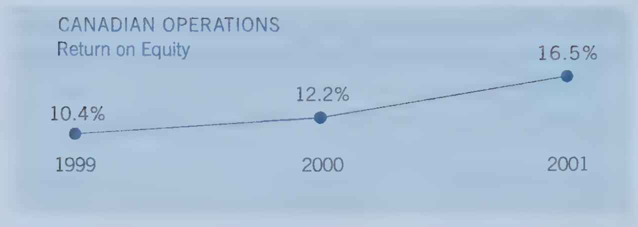
For the year ended December 31, 2001, the Canadian operations reported strong earnings growth despite a challenging economic environment in Canada. Shareholders' net income from the Company's Canadian operations increased to $212 million, up $28 million or 15% from 2000, largely attributable to significant improvements in the individual annuity and group businesses. Revenue for the year decreased by $91 million or 2% to $3.9 billion, reflecting a decline in sales of annuity products and lower investment income, partially offset by increased life premiums. Total assets under management increased to $52.5 billion as at December 31, 2001, up $2.0 billion from 2000. The asset growth was primarily due to increased sales of institutional funds, partially offset by the lower values of equity mutual funds and equity-linked segregated funds due to market declines in 2001. ROE for the year improved significantly to 16.5% from 12.2% in 2000, largely due to solid earnings growth and improved capital efficiency. Equity capital employed in the Company's Canadian operations decreased by $418 million to $1.2 billion at the end of 2001, as a result of effective capital management and timely redeployment of excess funds to other operating units across the Company. In 2001, the Canadian operations contributed 24% of the Company's earnings and 23% of total revenue.

FINANCIAL PERFORMANCE - CANADIAN OPERATIONS

(in millions of Canadian dollars)	Revenue			Shareholders' Net Income(1)		
	2001	2000	1999	2001	2000	1999
WEALTH MANAGEMENT						
Group Retirement Services	539	620	636	38	45	38
Spectrum and Other	775	881	779	45	24	21
Sun Life Trust(2)	–	–	156	–	–	15
PROTECTION						
Individual Life	971	969	941	39	48	36
Group Life and Health	1,544	1,468	1,402	81	68	28
OTHER	26	8	47	9	(1)	28
TOTAL CANADIAN OPERATIONS	3,855	3,946	3,961	212	184	166

(1) Amounts for periods prior to demutualization are on an adjusted basis.
(2) Sun Life Trust was sold on March 1, 2000.





GROUP RETIREMENT SERVICES

The Company is a leading provider of group retirement products and services in Canada. With its strength in product offerings and infrastructure capabilities, the Company is well equipped to meet the complex plans and service requirements of medium to large corporations and associations, and provide cost effective solutions for smaller markets.

Earnings from this business unit were $38 million, representing a relatively solid performance in light of difficult economic conditions in 2001. Earnings decreased by $7 million or 16% as the 2001 results were adversely impacted by changes in actuarial assumptions for mortality. Revenue declined by $81 million or 13% to $539 million, primarily reflecting lower annuity premiums as the Company continued to shift its focus towards higher-margin, fee-based products and services which are less capital intensive. Assets under management in the group retirement and services business unit declined marginally to $11.9 billion in 2001, as strong segregated fund sales and asset retention actions served to largely offset the impact of Canadian equity market declines.

SPECTRUM AND OTHER

Spectrum and Other includes the Company's Spectrum and McLean Budden subsidiaries, as well as the individual annuity and brokerage businesses. Spectrum has 47 retail mutual funds in Canada, with total mutual fund assets of $7.0 billion as at December 31, 2001. McLean Budden is one of the premier providers of investment management services in Canada, with $24.8 billion in assets under management as at December 31, 2001, of which $3.3 billion was managed on behalf of Spectrum and $2.8 billion for other areas of the Company's Canadian operations.

Total earnings in Spectrum and Other for the year increased to $45 million, up $21 million from 2000. The strong earnings improvement in 2001 was primarily attributable to a combination of expense reductions in 2001 and a significant non-recurring increase in actuarial liabilities in 2000 related to new product expenses.

Total revenue decreased by $106 million or 12% to $775 million in 2001, reflecting lower individual annuity premiums and a decline in fee revenue resulting primarily from lower average asset levels in Spectrum. During 2001, the Company increased its focus on fee-based segregated fund products and launched a new generation of its Canadian segregated fund family, Sun*Wise*, which is designed to offer superior features relative to competing products. The new segregated fund product combines market-linked appreciation with innovative guarantees for the value of investments.

Total assets under management for these businesses increased to $30.4 billion, up $2.0 billion or 7% from 2000. The asset growth was largely driven by strong sales of institutional funds by McLean Budden. Despite challenging market conditions in 2001, Spectrum continued to increase its brand awareness to position itself for a resurgence in equity markets.

INDIVIDUAL LIFE

The Company's Canadian individual life operations offer a broad range of insurance products that are tailored primarily for mid- to high-net worth individuals. During 2001, the Canadian individual life business unit continued to increase its focus in universal life ("UL") products that offer strong growth opportunities in the individual life market. In 2001, the UL products represented more than 75% of the Company's Canadian individual life insurance sales.

Earnings for the year decreased by $9 million to $39 million in 2001. Earnings in 2000 included a non-recurring amount of $29 million, representing benefits from a reinsurance treaty established in 2000 net of charges arising from the Company's adoption of changed Canadian industry standards for calculation of actuarial liabilities. Excluding this impact, earnings in 2001 would have been up $20 million relative to 2000, reflecting continued cost reductions and improved mortality. Revenue increased slightly to $971 million as increased UL premiums were largely offset by lower investment income.

GROUP LIFE AND HEALTH

The Company is one of the largest providers of group insurance products in Canada. Its group products are custom-designed to fulfill the protection needs of employers of all sizes. In 2001, the Company's Canadian group life and health business unit continued to maintain its strong market position by leveraging its strengths, particularly in product offerings and innovative claims-processing systems.

The group business unit reported strong results for the year, with earnings up $13 million or 19% to $81 million relative to 2000. The excellent earnings performance was primarily attributable to better morbidity experience in group health, favourable mortality experience in group life and improved operating efficiency. Revenue for the year increased by 5% to $1.5 billion and premium income plus premium equivalents from administrative services only ("ASO") business were up 15% to $2.3 billion compared to 2000. The revenue growth in the group business reflected the Company's focused efforts to increase sales in key product lines and customer segments. New business premiums and premium equivalents increased to $235 million, up $44 million or 23% from 2000. Fee income earned on the ASO business in the group health line grew to $53 million, up 29% over 2000.

OTHER

Other operations in Canada include investment income and expenses not directly related to the other operating units in the Company's Canadian operations. For the year ended December 31, 2001, the Other operations unit reported net income of $9 million compared to a loss of $1 million in 2000. The increase in earnings was attributable to higher investment income and lower income taxes resulting from the favourable resolution of an outstanding tax issue.

United States Annuity and Insurance Operations

The Company's U.S. annuity and insurance operations ("U.S. operations") primarily concentrate on individual annuity products, high-end and emerging affluent segments of the individual insurance market, and high growth group business lines. The Company, through its retirement product and services business unit, offers innovative and enhanced fixed and variable annuities in the United States. The insurance business is organized into two operational areas: (i) individual life, including fixed and variable universal life, term life, and participating whole life insurance, and (ii) group life and health insurance including life insurance, short- and long-term disability benefits and medical stop-loss plans.

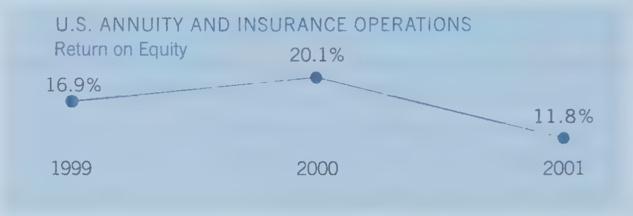
For the year ended December 31, 2001, the Company's U.S. operations reported total shareholders' net income of $222 million, relative to $229 million in 2000. Excluding $47 million of non-recurring venture capital gains, net of asset provisions in 2000, the earnings in 2001 would have been up $40 million or 22% from 2000. This increase reflected strong growth in its insurance business and an earnings contribution of $27 million by Keyport, partially offset by decreased earnings from its other U.S. annuity business due to U.S. equity market declines. Revenue for the year was $7.8 billion, up $652 million or 9% from 2000. The increase was largely driven by premium growth in the protection business and revenue generated by Keyport, partially offset by decreased sales of other annuity products as a result of the economic slowdown and poor equity market performance in the United States.

FINANCIAL PERFORMANCE - U.S. ANNUITY AND INSURANCE OPERATIONS

(in millions of Canadian dollars)	Revenue			Shareholders' Net Income[1]		
	2001	2000	1999	2001	2000	1999
WEALTH MANAGEMENT						
Retirement Products and Services	4,672	4,406	3,270	64	73	57
PROTECTION						
Individual Life	2,206	1,981	1,863	106	75	22
Group Life and Health	871	699	622	41	25	20
OTHER	62	73	80	11	56	78
TOTAL U.S. ANNUITY AND INSURANCE OPERATIONS	7,811	7,159	5,835	222	229	177

(1) Amounts for periods prior to demutualization are on an adjusted basis.

ROE for the year decreased to 11.8% from 20.1% in 2000, reflecting increased capital investments in the U.S. arising from the Keyport/IFMG acquisition and lower earnings in the U.S. operations. The Company's U.S. operations had equity capital of $4.5 billion at December 31, 2001, compared to $1.3 billion at December 31, 2000. The increase in equity during 2001 resulted primarily from the purchase of Keyport and IFMG and regulatory changes in capital requirements for variable annuity products. In 2001, the U.S. operations represented 25% of the Company's earnings and 47% of total revenue.



RETIREMENT PRODUCTS AND SERVICES

In the face of the challenging market conditions in the U.S. in 2001, the Company intensified its focus on the manufacturing of innovative products and the development of industry leading wholesale distribution channels. The Company maintained its number one rating for overall operations support among 34 mid-size variable annuity providers in the U.S., and was for the first time rated "number one" for overall marketing support in the *DALBAR 2001 Financial Professional Survey.* These two awards recognize the Company's winning formula for operational excellence and customer service, and its broad expertise in understanding and meeting the needs of the distributors of its products.

The acquisition of Keyport and IFMG reflected the Company's strategy to continue strengthening its operating platform in the U.S. wealth management industry. With the acquisition of Keyport's $29.7 billion in assets under management, the Company doubled the size of its individual annuity business in the United States to become a major provider of individual annuities in the U.S. market. The increased scale and enhanced diversity of the Company's annuity operation will provide strategic flexibility and operational leverage for future growth.

Earnings for the year declined to $64 million, down $9 million or 12% from 2000. The decrease was primarily due to a decline in fee income caused by a lower average annuity asset base and increased amortization of deferred acquisition costs. These declines were partially offset by Keyport's earnings contribution and increased earnings from investment products. Revenue for the year increased by $266 million or 6% from $4.4 billion in 2000, as the addition of Keyport's businesses more than offset lower sales of DCA annuity and investment products and decreased fee income.

Assets under management were $65.1 billion at December 31, 2001 compared to $36.2 billion at December 31, 2000. The increase of $28.9 billion represented primarily the addition of assets from Keyport. Excluding Keyport's assets, assets under management in the Company's retirement products and services business unit were down $0.8 billion, largely due to the declines in U.S. equity markets, partially offset by the favourable impact of currency translation as a result of the weakening Canadian dollar against the U.S. dollar compared to December 31, 2000.

Sales of variable annuity products for the year decreased to $4.8 billion, down $1.7 billion or 26% from the year 2000, reflecting the fact that the industry was significantly challenged by economic slowdowns and volatile markets in the U.S. throughout 2001.

INDIVIDUAL LIFE

During 2001, the Company strengthened its strategic position as a preferred insurance provider for its targeted customers in the high net worth and emerging affluent segments of the U.S. population. The product portfolio was upgraded with a focus on competitively-priced, high-quality and value-added products to serve market needs in the areas of estate planning, wealth transfer, wealth preservation, and business insurance planning. The Company continued to grow its assets under management in the bank-owned life insurance ("BOLI") and corporate-owned life insurance ("COLI") markets. Through product differentiation and enhancement of distribution channels, the Company strengthened its position and increased market share in its core individual life product lines in the U.S. in 2001.

The U.S. individual life operations continued to deliver revenue growth and strong earnings performance in 2001. Earnings increased to $106 million up $31 million or 41% from 2000, reflecting continued expense management efforts and growth of in-force business. Revenue grew to $2.2 billion, up $225 million or 11%, due primarily to higher sales in BOLI, universal life and variable universal life products and increased investment income. Sales in key product segments continued to outpace the industry, achieving an overall growth of 27% for the year 2001.

GROUP LIFE AND HEALTH

The Company continued to strengthen its presence in high margin and less capital intensive business segments in the U.S. marketplace with a focus on group benefit needs of small and medium-sized companies in 2001. This was reflected in the Company's strong sales momentum in the medical stop-loss business. During 2001, the Company intensified its penetration in major U.S. markets by leveraging its extensive sales network and superior underwriting expertise.

The Company's U.S. group operations had another year of strong growth in both revenue and earnings. Earnings increased to $41 million, up $16 million or 64% compared to 2000, primarily attributable to price increases in the stop-loss line of business and improved expense management. Revenue increased to $871 million, up $172 million or 25% over 2000, largely reflecting increased sales in target product segments and premium growth in group health driven by improved pricing.

OTHER

For the year ended December 31, 2001, earnings from the Other operations unit in the U.S. declined by $45 million to $11 million. This decrease was largely due to net venture capital gains of $47 million realized in 2000 that were not repeated in 2001. The costs arising from hedging activities in 2001 to protect the value of investments against the volatility of markets were mostly offset by a reduction of tax provisions no longer required as a result of completion of prior years tax reviews by IRS authorities and a liability reduction related to superceded company benefit plans.

MFS Investment Management

MFS is one of the largest U.S. based mutual fund and investment management companies, offering investment products and services in the U.S. and other global markets to both retail and institutional investors. MFS manages mutual funds, variable annuity products, pension funds and other institutional funds. It also provides mutual fund and variable annuity distribution services. As at December 31, 2001, the Company's ownership interest in MFS was 85.1%.

Economic uncertainty and global equity market downturns exerted significant earnings challenges on asset management businesses throughout 2001. Falling market valuations more than offset strong sales and eroded the MFS asset base, resulting in a reduction of 7%, measured in U.S. currency, in assets under management compared to December 31, 2000. Despite adverse market conditions, MFS contributed solid earnings of $231 million, representing the Company's share of the MFS total earnings for the year ended December 31, 2001. The earnings performance of MFS reflected its efforts to mitigate severe earnings pressures arising from market volatility by maintaining strong sales and implementing proactive cost reduction measures.

FINANCIAL PERFORMANCE - MFS

(in millions of Canadian dollars)	2001	2000	1999
Revenue	2,273	2,382	1,822
Shareholders' Net Income	231	256	187
Assets Under Management[1]			
Mutual Funds	146,021	153,453	143,105
Managed Funds	72,380	67,592	55,803
Shareholders' Equity	440	270	233
Return on Equity	63%	87%	78%

[1] Excludes general fund assets of $1,762 million in 2001 ($1,787 million in 2000 and $1,486 million in 1999).

On the sales front, MFS vigorously pursued market share growth by leveraging its investment strength and robust operational infrastructure. It also benefited from investors' preference to invest with quality names such as MFS in turbulent markets. MFS achieved impressive net sales of $26.4 billion, of which $11.8 billion is related to retail mutual funds and $14.6 billion is related to institutional products, including variable annuity products managed by MFS. In 2001, MFS ranked number 4 for net new flows of retail mutual funds in the overall industry for long-term open-ended funds, up from a number 5 ranking in 2000.

On the cost front, MFS instituted aggressive cost containment programs focusing on operational and organizational efficiencies. MFS' swift and effective response to a declining revenue base resulted in expense reductions of $61 million or 6% from 2000. The expense to revenue ratio in MFS decreased to 45% from 46% in 2000, reflecting continued margin improvement.

As a result of lower average asset levels in 2001, earnings from MFS declined by 10% and revenue, largely comprising fee income, was down 5% from 2000. Assets under management were $218.4 billion as at December 31, 2001, relative to $221.1 billion as at December 31, 2000. The market-related asset decrease was largely offset by net sales during the year and favourable impact of currency translation of the stronger U.S. dollar relative to the Canadian dollar. MFS' ROE for the year was 63%, down from 87% in 2000 due to decreased earnings and increased equity capital funding future business growth. In 2001, MFS accounted for 26% of the Company's earnings and 14% of total revenue.

During 2001, MFS continued to strengthen its core competency. Leveraging its integrated research-focused investment philosophy, MFS achieved outstanding investment performance relative to the majority of other mutual fund companies. As at December 31, 2001, 66% of the total number of MFS equity and fixed income funds ranked by Lipper achieved either the first or second quartile performance for the 1-year period. Results for 3-, 5- and 10-year periods were equally impressive, with 79%, 71% and 62% achieving the top two-quartile rankings. Management focused its strategic efforts on asset retention by offering a broad range of investment styles and through the retention of top investment personnel. At December 31, 2001, MFS had total retail mutual fund assets of $146.0 billion, of which $132.0 billion were long-term funds. MFS was ranked the eighth-largest mutual fund company in the United States at year-end 2001, measured by long-term retail mutual fund assets, up from a number 9 ranking at December 31, 2000.

United Kingdom Operations

The Company's U.K. operations offer primarily group life and health insurance products and services. The Company also has a large block of in-force individual annuity and insurance policies. In March 2001, the Company stopped offering individual annuity and insurance products to new customers.

During the year ended December 31, 2001, the U.K. operations contributed $180 million to the Company's earnings, $61 million or 51% higher than in 2000. The strong earnings performance reflected the success of the Company's strategic shift to focus on realizing the underlying value of the Company's in-force individual annuity and insurance businesses in the United Kingdom. Revenue declined by $193 million or 9% compared to 2000, primarily due to the absence of new sales in individual annuity and insurance products. ROE improved significantly to 15.8% from 11.1% in 2000, reflecting the strong earnings performance. The U.K. operations represented 20% of the Company's earnings and 12% of total revenue in 2001.

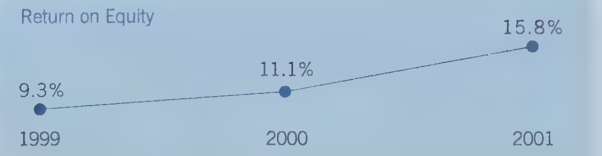
FINANCIAL PERFORMANCE - U.K. OPERATIONS

(in millions of Canadian dollars)	Revenue			Shareholders' Net Income[1]		
	2001	2000	1999	2001	2000	1999
WEALTH MANAGEMENT	789	855	1,082	157	107	47
PROTECTION						
Individual Life	850	987	1,127	90	35	36
Group Life and Health	420	418	411	28	27	(22)
OTHER	8	–	33	(95)	(50)	40
TOTAL U.K. OPERATIONS	2,067	2,260	2,653	180	119	101

(1) Amounts for periods prior to demutualization are on an adjusted basis.

U.K. OPERATIONS
Equity (in millions of Canadian dollars)

U.K. OPERATIONS
Return on Equity



WEALTH MANAGEMENT

As part of business rationalization in 2001, the Company brought greater focus to its wealth management sector by divesting its U.K. asset management and banking businesses and by exiting the sale of annuity and pension products to new customers in the United Kingdom. The U.K. wealth management operations are now primarily focused on servicing the block of in-force annuity and pension policies and strengthening expense management.

For the year ended December 31, 2001, earnings from the U.K. wealth management operations increased to $157 million, up $50 million or 47% compared to 2000. The strong earnings performance was primarily attributable to better investment performance and reduced expenses. Revenue decreased by $66 million or 8% to $789 million, consistent with the Company's strategy to scale down this business. Assets under management declined significantly to $10.9 billion as at December 31, 2001 from $20.6 billion as at December 31, 2000, due largely to the Company's divestiture of the asset management and banking businesses.

Sun Bank and SLCAM, which were divested in late 2001, collectively contributed $28 million in earnings and $241 million in revenue to the U.K. operations in 2001, compared to $29 million in earnings and $281 million in revenue in 2000.

INDIVIDUAL LIFE

The U.K. individual life insurance business comprises in-force insurance policies as a result of the Company's decision to stop selling individual insurance products in March 2001. During the year, the Company managed the transition of the individual life business to the run-off phase. The restructuring of the workforce was smoothly conducted with minimal disruptions of ongoing policy administration activities.

For the year, earnings from the Company's U.K. individual life operations increased by 157% to $90 million, due largely to the elimination of new business acquisition costs and the favourable impact of commission related reductions arising from the Company's exit from the direct sales force distribution business. Revenue, however, decreased by $137 million or 14% to $850 million, primarily reflecting the discontinuation of sales of individual insurance products.

GROUP LIFE AND HEALTH

The Company actively markets and distributes group life and health products in the United Kingdom through independent brokers.

Earnings from the Company's U.K. group business were $28 million compared to $27 million in 2000, as better mortality experience and reduced operating expenses were largely offset by unfavourable morbidity experience. Revenue increased marginally in 2001, reflecting the Company's streamlining of its product offerings and its focus on higher margin products in the U.K. group insurance market.

OTHER

Other operations in the U.K. include investment income, asset provisions and expenses not directly associated with the U.K. operating units. For the year ended December 31, 2001, these operations reported $95 million in losses compared to $50 million in 2000. The higher losses in 2001 were primarily attributable to restructuring expenses arising from the U.K. rationalization initiative.

Asian Operations

The Company's business in Asia includes individual insurance in the Philippines, Hong Kong, Indonesia and India, and group insurance in the Philippines and India as well as wealth management business in India and the Philippines.

For the year ended December 31, 2001, the Asian operations reported $20 million in shareholders' net income, down $7 million or 26% from 2000. This reduction in earnings was within management's expectation, and was primarily attributable to increased expenses related to the introduction of new products and distribution channels in Hong Kong and business development activities in other Asian markets. Revenue increased to $464 million, up $51 million or 12% from 2000, reflecting strong sales growth in Hong Kong and improved investment performance, partially offset by the depreciation of local currencies relative to the Canadian dollar. ROE for the year 2001 decreased to 4.2% from 6.7% in 2000, reflecting the combination of reduced earnings and increased investments in the region.

FINANCIAL PERFORMANCE - ASIAN OPERATIONS

(in millions of Canadian dollars)	2001	2000	1999
Revenue	464	413	401
Shareholders' Net Income(1)	20	27	31
Shareholders' Equity	514	401	405
Return on Equity	4.2%	6.7%	8.2%

(1) Amounts for periods prior to demutualization are on an adjusted basis.

During 2001, the Company continued to expand and strengthen its market presence in selected Asian markets. In the Philippines, the Company solidified its strong market position with broadened product offerings and enhanced customer service. The Company undertook organizational realignment initiatives and reinforced its customer-oriented focus. It actively pursued strategic alternatives to sell bancassurance products in the Philippines. The Philippine operations, which accounted for 55% of the Company's total insurance premiums in Asia, posted a growth of 14% in total premium, measured in local currency. In spite of the continued slump in the Philippine stock market, the Company's mutual fund operation in the country continued to grow through expansion of distribution channels and by developing value-based products.

In Hong Kong, the Company has undertaken an aggressive transformation to an operating platform focusing on investment-linked life insurance products through a multi-channel distribution network. During 2001, the Company successfully launched its variable universal life business line, marking the beginning of the Company's strategic shift to this fast growing and more capital efficient product segment. The Company established an exclusive bancassurance relationship with Hong Kong based CITIC Ka Wah Bank. This bank partner focuses on high-end customers with strong customer services, consistent with the Company's own marketing strategy. The bancassurance channel accounted for 18% of total sales and was a significant contributor to the total sales increase of 38% in Hong Kong in 2001. The Company also streamlined its traditional product line pursuing a balance of sales growth and profitability improvement. The Company's agency distribution system in Hong Kong grew from 271 to 346 career agents.

In India, the Company commenced life insurance operations in March 2001 through its India joint venture, Birla Sun Life Insurance Company Limited ("BSLIC"). BSLIC has been growing rapidly. By the end of 2001, it had already built a distribution network of 11 branches in 10 cities and sold more than 8,000 policies. During 2001, it established two bancassurance alliances, adding a powerful channel to its distribution platform. It also successfully penetrated group insurance markets with customer focused and cost efficient products. The India stock market declined significantly in 2001. The Company's India asset management joint venture, Birla Sun Life Asset Management Company Limited ("BSLAMC"), however, held its asset and customer base and maintained its market position as the second largest private mutual fund in the country. Despite the market uncertainty, BSLAMC moved ahead to strengthen its competitive position through enhancement of its infrastructure. As at December 31, 2001, it had $1.3 billion in assets under management and approximately 350,000 investor accounts.

The Company's China life insurance joint venture, Sun Life Everbright Life Insurance Company Limited ("SLEB"), has undertaken significant preparations to commence operations in Tianjin, a major city in China. SLEB expects to be the first foreign life insurance joint venture to operate in Tianjin once it receives all regulatory approvals. This market entry will effectively position the Company to take advantage of excellent growth opportunities in its initial target market.

Other Operations

The Company's Other operations include investments of capital not deployed by the Company's national operations and expenses not allocated to operating units. This reporting unit also includes the results of the Company's investment in Cuprum, one of the leading pension fund administrators in Chile. The Company owns a 32% equity interest in Cuprum.

For the year ended December 31, 2001, the Company's Other operations reported earnings of $17 million compared to losses of $23 million in 2000. The improved results were largely due to the fact that the 2000 results included significant asset provisions which did not recur in 2001. In 2001, the Company realized total after-tax gains of $125 million on the sales of Sun Bank and SLCAM, which were reported in the Other

operations unit. These gains were largely offset by U.K. outsourcing and restructuring related costs of $88 million, net of taxes, and costs of $30 million, net of taxes, associated with the early redemption of certain subordinated debt. The results in 2001 also reflected costs of $15 million related to the financing of the acquisition of Keyport and IFMG.

FINANCIAL PERFORMANCE - OTHER OPERATIONS

(in millions of Canadian dollars)	2001	2000	1999
Revenue[1]	219	46	69
Shareholders' Net Income[2]	17	(23)	(13)
Shareholders' Equity	121	1,796	1,584
Return on Equity	0.9%	N/A	N/A

(1) Includes consolidation adjustments of $188 million in 2001 ($174 million in 2000 and $107 million in 1999).
(2) Amounts for periods prior to demutualization are on an adjusted basis.

Revenue for the year increased to $219 million, up $173 million from 2000. The increase was largely due to the gains on the sale of U.K. assets. The reduction in equity compared to December 31, 2000 reflected the re-deployment of excess capital for the acquisition of Keyport and IFMG in October 2001.

Cuprum had total assets under management of $8.8 billion as at December 31, 2001, compared to $8.5 billion as at December 31, 2000. The Company's investment in Cuprum contributed $9 million in earnings (net of goodwill amortization of $6 million), compared to $8 million (net of goodwill amortization of $6 million) in 2000.

Investments

The Company holds a diverse set of portfolios for its asset management, mutual fund and variable annuity operations, as well as for the Company's general funds. The Company maintains separate investment policies appropriate for each of its different areas of operation. For its general funds, the Company focuses on maintaining high-quality, well-diversified portfolios that are appropriate to its general fund obligations. The investment of the Company's general funds is described below.

INVESTMENT POLICIES

The primary aim of the Company's investment strategy for its general fund assets is to ensure that all investments are properly structured relative to the maturities of its liabilities and that adequate liquidity is maintained at all times. The Risk Review Committee of the Board of Directors regularly reviews and approves investment policies which set prudent standards and procedures for the investment of the Company's assets. These policies include limits for interest rate, credit, equity market, real estate market, liquidity, concentration, currency and derivative risks. Compliance with these policies is monitored and reported by the Company's corporate office on a regular basis. In addition, management is required to advise the Board of Directors annually, in writing, of adherence to these policies.

INVESTMENT PROFILE

The Company had total consolidated general fund invested assets of $73.2 billion at December 31, 2001, compared to $51.0 billion at December 31, 2000. The significant increase in invested assets reflected the addition of Keyport's assets which were $22.7 billion at December 31, 2001.

The investment portfolio is broadly diversified and carefully managed with respect to the nature of the Company's underlying policy obligations. The Company invests the majority of its general funds in medium- to long-term fixed income instruments such as bonds and mortgages. The assets supporting equity capital are invested in a broader range of assets including bonds, equity securities, mortgages and real estate, reflecting a management focus on the enhancement of risk-adjusted investment returns.

INVESTMENTS

(in millions of Canadian dollars)	2001		2000		1999	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
Bonds	48,077	65	27,534	54	25,545	51
Mortgages	8,622	12	10,179	20	11,477	23
Stocks	4,882	7	4,583	9	4,689	9
Real Estate	2,316	3	2,327	4	2,403	5
Cash and Equivalent Investments	4,809	7	3,962	8	3,443	7
Policy Loans and Other Invested Assets	4,558	6	2,416	5	2,429	5
TOTAL CARRYING VALUE	73,264	100	51,001	100	49,986	100
TOTAL MARKET VALUE	74,763		52,977		51,949	

BONDS

The Company's bond portfolio represented 65% of invested assets at December 31, 2001 compared to 54% at the end of the previous year. At December 31, 2001, 67.8% of the bond portfolio was rated "A" or higher and 94.5% was rated "BBB" or higher. The Company's bond portfolio is actively managed through a regular program of purchases and sales directed at optimizing yield quality and liquidity, while ensuring that the asset portfolio remains matched to liability requirements. At December 31, 2001, the bond portfolio had a carrying value of $48.0 billion and a market value of $49.3 billion compared with $27.5 billion and $28.8 billion at the end of 2000. The increase in bond investments was primarily attributable to Keyport which had a bond portfolio with a carrying value of $19.2 billion at December 31, 2001.

At December 31, 2001 and 2000 the Company held $14.1 billion and $7.8 billion, respectively, of non-public bonds, which constituted 29.2% and 28.4%, respectively, of the Company's overall bond portfolio. Of such amounts, non-public bonds rated "A" or its equivalent or higher represented 50.7% and 53.5%, respectively, of total non-public bonds, and non-public bonds rated "BBB" or its equivalent or higher represented 91.0% and 97.6%, respectively, of total non-public bonds at such dates. The increased non-public bond holdings were due to the addition of Keyport's bond portfolio which is also broadly diversified.

The Company's bond portfolio is also diversified by country. As at December 31, 2001, 59% of the total bond portfolio was invested in the U.S., 21% in Canada and 14% in the U.K., based on the jurisdiction of the incorporation of issuers.

MORTGAGES

The Company's mortgage portfolio represented 12% of invested assets at December 31, 2001 compared to 20% at the end of 2000. The Company's mortgage portfolio totalled approximately $8.6 billion compared to $10.2 billion at the end of 2000. The decrease in mortgage investments was primarily attributable to the sale of Sun Bank. As at December 31, 2001, 52% of total mortgage portfolio was invested in the U.S., 44% in Canada and 4% in the United Kingdom.

The Company's mortgage portfolio is almost entirely first mortgages. Generally, the Company does not participate in development lending and does not invest in participating mortgages. While the Company generally requires a maximum loan to value ratio of 75%, it may invest in mortgages with a higher loan to value ratio in Canada if the mortgage is insured.

As at December 31, 2001, commercial mortgages accounted for 78% and residential mortgages accounted for 22% of the Company's total mortgage portfolio. Approximately 34% of mortgage loans mature by December 31, 2006. As part of its ongoing investment activities, the Company seeks to renew a significant proportion of those mortgages that meet the Company's investment criteria.

The Company also originates and manages mortgage-backed investments for institutional clients. This fee-based business allows the Company to leverage its extensive commercial mortgage underwriting expertise and enhance its asset management strength. In 2001, the Company offered $253 million of commercial mortgage-backed securities in Canada and $155 million in the U.S., which allowed the Company to more effectively manage its mortgage portfolio. The Company had $1.5 billion in managed mortgage assets as at December 31, 2001, compared to $1.2 billion at the end of 2000.

STOCKS

The Company's equity portfolio represented 7% of invested assets at December 31, 2001 compared to 9% at the end of 2000. At December 31, 2001, the Company's stock portfolio had a carrying value of $4.9 billion compared with $4.6 billion at the end of 2000. The increase in equity investments in 2001 was primarily attributable to the Company's investments in Clarica common shares. The market value of its stock portfolio was $4.4 billion compared with $4.5 billion at the end of 2000 primarily due to the decline of equity market valuations.

The Company's equity portfolio is diversified by country. At December 31, 2001, $1.1 billion or 22% of the Company's equity portfolio related to Canadian issuers, $1.0 billion or 21% to U.S. issuers, $2.2 billion or 45% to U.K. issuers, and $576 million or 12% to issuers from other jurisdictions. The portfolio is also well diversified by industry classification and issuer. At December 31, 2001, the Company's investments in Clarica's common shares accounted for 14% of the total market value of the Company's equity holdings, representing the largest single issuer in the Company's equity portfolio. The largest industry sector holdings were financial services and consumer products at 32% and 30%, respectively, of the market value of the Company's consolidated equity holdings.

REAL ESTATE

The Company's real estate portfolio represented 3% of invested assets at December 31, 2001 compared to 4% at the end of 2000. At December 31, 2001, 40% of the portfolio was located in Canada, 38% in the United States and 22% in the United Kingdom. The Company's real estate portfolio had a carrying value of approximately $2.3 billion and a market value of approximately $2.6 billion at December 31, 2001 compared with $2.3 billion and $2.6 billion, respectively, at the end of 2000.

Commercial office properties are the major component of the real estate portfolio, representing approximately 46% of real estate investments at December 31, 2001.

The Company actively manages its real estate portfolio, focusing on acquisitions and dispositions, leasing and rehabilitation, and the management of foreclosed properties. The Company is also engaged in the business of advisory and management of third-party properties.

IMPAIRED ASSETS

Total impaired assets, net of specific allowances, amounted to $233 million, or 0.32% of the Company's invested assets at December 31, 2001, compared to $123 million, or 0.24% of the Company's invested assets at December 31, 2000. The increase relative to 2000 was primarily driven by the impaired assets associated with Keyport's bond holdings.

The Company provided allowances against impaired assets, which amounted to $131 million at December 31, 2001, with $27 million in specific allowances and $104 million in general allowances. In addition, the Company had allowances of $943 million for possible future asset defaults included in its actuarial liabilities as at December 31, 2001 compared with $635 million in 2000.

The Company generally takes provisions for impaired bonds and mortgages. In addition, the Company provides provisions for securities if a decline in their value is believed to be other than temporary. Provisions are also taken if the full market value of a foreclosed property held for resale falls below its carrying value. In 2001, the Company took provisions of $4 million, net of recoveries of $10 million, on invested assets compared to provisions of $107 million, net of recoveries of $10 million, in 2000. The 2000 provisions were primarily related to bond and mortgage investments in the United States.

DEFERRED NET REALIZED GAINS AND NET UNREALIZED GAINS

Deferred net realized gains represent net gains on the sale of invested assets that have not yet been recognized in income. In accordance with Canadian generally accepted accounting methods for insurance companies, net realized gains on the sales of bonds and mortgages are deferred and amortized into future investment income on a constant yield basis over the remaining period to maturity. Net realized gains on the sales of stocks and real estate are deferred and amortized into future investment income at the annual rate of 15% and 10%, respectively, of the unamortized balance. The Company had $3.7 billion in deferred net realized gains as at December 31, 2001, of which $2.8 billion represented net gains on invested assets backing actuarial liabilities and $947 million represented net gains on invested assets backing equity capital. Gains on bonds and stocks collectively represented 94% of total deferred net realized gains as at December 31, 2001.

Net unrealized gains represent the difference between market value and carrying value of investments, which are not recorded on the Company's balance sheet except with respect to stocks and real estate. Carrying values for stocks and real estate are determined on a moving average market method of accounting whereby a portion of unrealized gains or losses is included in the carrying value of investments. Consequently, the related amounts are credited to or charged against income. The Company had $1.5 billion in net unrealized gains as at December 31, 2001 compared to $2.0 billion as at December 31, 2000. The decreased unrealized gains were primarily due to equity market declines. Net unrealized gains on investments backing equity capital were approximately $147 million as at December 31, 2001, compared to approximately $200 million as at December 31, 2000.

Financial Position and Liquidity

The Company maintains a strong financial position and adequate liquidity to ensure that it is able and well prepared to meet its obligations.

PRINCIPAL SOURCES OF FUNDS

The primary source of funds for the Company is cash provided by operating activities, including premiums, investment management fees and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses and interest. Cash flows generated from operating activities are generally invested to support future payment requirements including payment of dividends to shareholders. In addition, the Company may raise funds from time to time through borrowing and the issue of securities to finance growth, acquisitions or other needs.

CASH FLOW

(in millions of Canadian dollars)	2001	2000	1999
Net Cash provided by Operating Activities[1]	2,074	2,681	1,711
Net Cash provided by (Used in) Financing Activities	908	(159)	432
Net Cash provided by (Used in) Investing Activities[2]	(3,070)	(2,053)	(1,478)
Changes due to Fluctuations in Exchange Rates	168	36	(132)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80	505	533
Cash and Cash Equivalents, beginning of period	2,503	1,998	1,465
CASH AND CASH EQUIVALENTS, END OF PERIOD	2,583	2,503	1,998
SHORT-TERM SECURITIES, END OF PERIOD	2,226	1,459	1,445
CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES, END OF PERIOD	4,809	3,962	3,443

(1) Includes net cash provided by discontinued operations.
(2) The amount in 2001 includes Keyport's cash of $919 million acquired.

Through well-balanced cash management, the Company maintained a strong cash position with a positive net cash flow of $80 million in 2001. Net cash provided by operations in 2001 was $2.1 billion which, together with $0.9 billion generated from financing activities, was used to fund investing activities. The Company raised new capital through the issue of 11 million common shares for $330 million and the issue of Sun Life ExchangEable Capital Securities, or SLEECS, for $950 million to partially finance the acquisition of Keyport and IFMG. The Company decreased short-term borrowings by approximately $104 million and paid $204 million of dividends to shareholders. In addition, the Company bought back approximately 1 million shares for $35 million in early 2001.

During 2000, the Company generated total net cash flow of $505 million and cash flow from operations was $2.7 billion, of which $2.1 billion was used for investing activities and $294 million was used to repay short-term financing. Sun Life Financial Services of Canada Inc. issued 21.6 million new shares in April 2000, as a result of the exercise of the underwriter over-allotment options in connection with its initial public offering. The $262 million net proceeds from the issue were partially offset by cash expenses of $76 million related to the demutualization and initial public offering. Shareholder dividends of $51 million were paid in 2000.

At December 31, 2001, the Company maintained cash, cash equivalents and short-term investments totaling $4.8 billion compared to $4.0 billion in 2000. In addition, the Company had available lines of credit in an aggregated amount of $1.4 billion and had drawn an aggregate of approximately $0.3 billion as at December 31, 2001. These lines of credit generally have terms ranging from 1 to 4 years.

LIQUIDITY

The Company's primary liquidity requirement is to meet operating cash outflow obligations such as the payment of claims and expenses, debt servicing and to ensure its ability to pay shareholder dividends. The Company generally maintains a conservative liquidity position that exceeds, on a consolidated basis, all the liabilities payable on demand. To further strengthen its liquidity, the Company actively manages and monitors its capital levels, the asset/liability matching position, the diversification and credit quality of its investments, its cash forecasts and actuals against established targets. In addition, the Company maintains standby credit facilities with a variety of banks.

The Company is subject to various regulations in the jurisdictions in which it operates. The ability of the Company's operating subsidiaries to pay dividends and transfer funds within the Company is regulated in certain of these jurisdictions. Transfers of funds across certain jurisdictions or among the Company's subsidiaries require local regulatory approvals and the satisfaction of certain conditions. Through effective cash management and capital planning, the Company ensures that its subsidiary operations, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

Based on the Company's historic cash flows and current strong financial performance, management believes that the cash flow from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

CAPITAL STRUCTURE

The Company's capital consists of equity, SLEECS which qualify as Tier 1 capital for regulatory capital purposes, cumulative capital securities and subordinated debt. Shareholders' equity increased to $7.6 billion, up $1.2 billion from the 2000 level of $6.4 billion. The increase was primarily due to the contribution of earnings during the year and the issuance of new common shares, partially offset by shareholder dividends. Currency translation increased equity by $257 million primarily as a result of depreciation of the Canadian dollar relative to the U.S. dollar and the British pound in 2001.

The number of Sun Life Financial Services of Canada Inc. common shares outstanding was 431.7 million as at December 31, 2001, compared to 421.8 million as at December 31, 2000. During the year, 11 million new common shares were issued in connection with the financing of the Keyport acquisition, and approximately 1 million shares were purchased and cancelled under a normal course issuer bid program.

The Company, through its controlled trust Sun Life Capital Trust, issued $950 million of SLEECS in October 2001 to fund, in part, the acquisition of Keyport and IFMG. The SLEECS have an effective yield of 6.865%. In certain limited circumstances, the SLEECS can be converted into Sun Life Assurance Company of Canada preferred shares that are exchangeable, after June 30, 2012, into Sun Life Financial Services of Canada Inc. common shares at a price equal to 95% of the trading price at the time of exchange. The SLEECS represent low cost and tax efficient capital that provides the Company with increased capital flexibility.

The Company's long-term debt was unchanged during the year, except for movement related to currency fluctuations. At the end of December 31, 2001, the Company had cumulative capital securities of $954 million (US$600 million) which were issued in U.S. dollars with no scheduled maturity date, and subordinated debt consisting of $300 million of notes due in 2005 which were redeemed in January 2002, $238 million (US$150 million) of notes due in 2007 and $238 million (US$150 million) of notes due in 2015.

Including the SLEECS as part of debt, the Company's debt-to-total capital ratio increased to 25.8% as at December 31, 2001 from 20.2% at December 31, 2000. After giving effect to the redemption of the $300 million of notes in January 2002, the debt to total capital ratio at December 31, 2001 would have been 23.6%.

SHAREHOLDER DIVIDENDS

Sun Life Financial Services of Canada Inc. intends to pay quarterly dividends to shareholders in a range that is comparable to that of shareholder dividends paid by other publicly traded North American financial services companies. The dividend policy is reviewed periodically by the Board of Directors, and is dependent upon the Company's earnings, financial condition and capital requirements.

Sun Life Financial Services of Canada Inc. declared its first quarterly shareholder dividend of $0.12 per share in the fourth quarter of 2000 since it became a publicly traded company in March 2000. This quarterly dividend was maintained in 2001, and Sun Life Financial Services of Canada Inc. declared $204 million or $0.48 per share in shareholder dividends for the year. The shareholder dividends in 2001 represented a payout ratio of approximately 23% in respect to the Company's earnings in the year. In February 2002, a quarterly dividend of $0.14 per share was declared, representing an increase of 16.7% over the quarterly dividends paid in 2001.

CAPITAL ADEQUACY

The Company has stringent policies to ensure that its capital levels are adequately maintained and are in compliance with regulatory requirements in the countries in which it has operations. In Canada, the Company is subject to Minimum Continuing Capital and Surplus Requirements ("MCCSR") established by the Office of the Superintendent of Financial Institutions ("OSFI"). MCCSR represents the ratio of the available capital of a life insurance company to its required capital, a direct measure of the capital adequacy of a company. Under the guidelines of OSFI, the Company is generally expected to maintain a minimum MCCSR of 150%.

MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS

(in millions of Canadian dollars)	2001	2000	1999
TOTAL MCCSR CAPITAL AVAILABLE			
Shareholders' Equity/Surplus as restated	7,645	6,438	5,690
SLEECS	950	–	–
Cumulative Capital Securities	954	900	870
Subordinated Debt[1]	656	689	734
Other	(1,624)	691	596
Total	8,581	8,718	7,890
TOTAL MCCSR CAPITAL REQUIRED	4,516	2,951	3,016
MCCSR RATIO	190%	295%	262%

(1) For the notes of $300 million due in 2005, only 60% for 2001 (80% for 2000 and 100% for 1999) of the principal amount qualifies as MCCSR capital.

The MCCSR ratio of the Company at December 31, 2001 decreased to 190% from 295% at December 31, 2000, reflecting the effect of the Keyport acquisition and the Company's more effective use of capital. The Company's available capital decreased slightly in 2001 as capital raised from the issuance of SLEECS and new common shares and capital generated from earnings in the year were mostly used to fund the Keyport acquisition. The Company's required capital increased by $1.6 billion relative to 2000, driven by additional capital requirements under MCCSR for the Keyport business and the full implementation of new OSFI guidelines on capital requirements for segregated funds.

To assess its capital adequacy and financial strength under adverse conditions, the Company performs Dynamic Capital Adequacy Testing on an annual basis. The process analyzes the Company's potential future financial condition over a five-year period by reviewing the impact of a variety of adverse economic and business scenarios which include declining interest rates and stock market performances, worsening mortality and morbidity rates, and increased expenses. The results of the testing completed in 2001 confirmed the Company's financial strength and its ability to withstand significant adversity.

Risk Management

The Board of Directors has appointed a standing committee, the Risk Review Committee, which meets at least four times a year and is dedicated to the oversight of risk management within the Company. No members of the committee are employees of the Company. The committee's key duties include responsibility for: (i) ensuring that the major areas of risk in respect of the business activities of the Company are identified and reviewed by management, and (ii) approving, and reviewing compliance with, the policies and programs implemented by the Company for the management and control of risk.

The Company has developed an enterprise-wide risk management framework to augment risk management within major operating areas and business units. The framework is designed to improve the ability of senior management to identify and manage certain business risks across the organization and to enhance the Company's ability to achieve consistent risk management in all business units. The framework includes the

appointment of a chief risk officer, the establishment of a network of risk teams and committees reporting to the Executive Risk Committee which meets monthly, the development and maintenance of risk policies, the formulation of risk tolerance limits, the measurement and exception reporting against both, and the development and periodic reporting of the Company's aggregate risk profile to management and the Board of Directors.

RISK POLICIES

The Company has written risk policies which are provided to the business operations and which set out the principles upon which the Company is prepared to undertake risks, the amount and types of risks the Company is prepared to undertake, and the types of control and monitoring programs that are required to be in place. Such risk policies are reviewed and re-approved by the Risk Review Committee at least annually, and management reports at least annually, in writing, on compliance with such policies to the Executive Risk Committee.

RISK IDENTIFICATION

The Company has a formal risk identification program in which management for each major business unit identifies the most important current key risks which may impact upon the business, the appropriateness of such risks, the control programs, early warning indicators in place, and the individuals accountable for maintaining the control programs. The results of such reporting are taken into consideration in establishing risk plans, and at least annually an aggregate risk profile is developed from such analyses and reported to the Risk Review Committee.

MAXIMUM TOLERABLE LOSS

The Company has established a corridor of risk-based limits which generally vary by size of operation, against which business unit income is monitored monthly. Any deviation from the pre-established corridor by a business unit results in reporting and review of that business unit before the Risk Review Committee.

MARKET RISK TOLERANCE LIMITS AND EARNINGS AT RISK

The Company has established market risk tolerance limits which set out the maximum income sensitivity businesses may have to changes in interest rates, equities, and foreign exchange markets. Such limits are based on the sensitivity of a one-year forward projection of income tested by major business unit against a set of internally prescribed market shocks. Deviations from the applicable limits are reported to the Risk Review Committee.

To complement the above, the Company has also developed an Earnings at Risk measurement tool which provides to management and the Risk Review Committee an analysis, within a 95% probability, of the maximum deviation of earnings by major business based on a one-year forward projection of income.

ASSET/LIABILITY MANAGEMENT

The objective of the Company's asset/liability management policy is to maximize long-term economic value subject to risk tolerance and constraints. The Company's insurance liabilities are segmented according to major product type with investment guidelines established for each segment. Asset mix, asset quality, liquidity and interest rate exposure are regularly measured and compared to policy objectives and liability requirements for each product type.

To control *interest rate risk* (the risk of economic losses arising from changes in interest rates and the cash flow impact of these changes on investments), the Company has instituted a matching policy for each portfolio of assets and associated liabilities in order to keep potential losses within acceptable limits. The primary approach for interest-sensitive business lines, primarily individual and group annuities, is management of the "duration gap" of assets and liabilities. Duration gap analysis measures the sensitivity of assets, liabilities and off-balance sheet instruments to interest rate changes. Specifically, the Company employs a "key rate duration" technique that examines the duration gap of assets and liabilities at discrete points on the yield curve. These gaps are managed within specified tolerance limits.

To control *market risk* (the risk of financial losses due to adverse changes in market prices), the Company's exposure to these market risks is monitored and managed against established risk tolerance limits, such as the Market Risk Tolerance Limits reporting and Earnings At Risk monitoring tools noted above. Additionally, stock holdings are diversified by industry type and by corporate entity, while real estate holdings are diversified by location and property type. The effects of a sustained and deeper adverse market movement are regularly monitored through Dynamic Capital Adequacy Testing and other stress testing techniques.

CLAIMS RISK MANAGEMENT

To control *claims risk* (the risk of incurring higher than anticipated mortality and morbidity claim losses on any one policy or group of policies), the Company follows detailed, uniform underwriting procedures to determine the insurability of applicants and to manage exposure to large claims. Underwriting requirement limits are regularly scrutinized against industry standards.

The Company evaluates each policy application from every distributor separately, and every policy is underwritten on its own merits. Group insurance policies are underwritten prior to the issue of the policy and again at each renewal. The Company's group insurance underwriting is driven by risk selection, plan design and rating techniques.

The risk policies approved by the Board of Directors include limits on the maximum amount of insurance that may be issued and the maximum amount that may be retained. These limits vary by geographic region. In the United States, the maximum amount of risk retained by the Company on any one life, at policy issuance, is US$7 million and US$10 million for any pair of lives insured under a joint life and last-to-die policy. Policies of up to US$15 million may be issued if the amounts exceeding these limits are reinsured with acceptably rated reinsurance companies. Any policies which exceed US$15 million require approval of a senior executive and are reported to the Board of Directors annually.

PRICING RISK

To control *pricing risk* (the risk that the actual experience with a product will not develop as estimated in pricing that product as a result of uncertainty concerning future investment yields, mortality and morbidity experience, expenses, rates of policy termination and taxes), the Company sets standards and guidelines that address pricing methods and assumptions, profit margin objectives, required scenario analysis, documentation, internal peer review, and pricing approval processes. The pricing risk management process also includes completion of an annual compliance assessment by all business units and the internal audit of business unit pricing on a rotating basis.

CREDIT RISK MANAGEMENT

To control *credit risk* associated with fixed income and equity investments, the Company uses detailed credit and underwriting policies, detailed diversification requirements, comprehensive due diligence, and aggregate counter-party exposure limits within fixed income and equity portfolios. A numerical credit risk factor is assigned to all fixed income investments, and an aggregate credit risk factor is developed for major operations and the Company in aggregate, which are monitored against pre-established limits and reported periodically to the Board of Directors. Provisions for impaired assets are charged against the carrying value of the asset. Allowances for possible future asset defaults are also provided through actuarial reserves.

LIQUIDITY RISK MANAGEMENT

To control *liquidity risk* (the ability of the Company to meet its obligations to policyholders and other creditors), the Company maintains, on a consolidated basis and as a matter of policy, liquefiable assets equal to at least 100% of all liabilities payable on demand. In addition, minimum levels of cash and money market investments as a percentage of total investment assets are maintained both on a consolidated level and within each national operation. Standby credit facilities are also maintained with a variety of banks throughout the world. Separate investment guidelines are maintained within each product line, with liquidity management taking into account the particular liquidity needs of each product line.

CONCENTRATION RISK MANAGEMENT

To control *concentration risk* (the risk of major losses resulting from an overexposure of investments to a single entity, group of related entities or industry segment), the Company's investment guidelines establish limits on the level of investment which can be made in any single entity or group of related entities and these limits are reviewed and amended, as necessary, at least annually. These limits are consolidated across all investment types to capture total exposure to any single borrower or investment. On a broader industry segment approach, the Company's investment guidelines also require that the risk levels of the various investment sectors be monitored with allocations adjusted accordingly.

FOREIGN CURRENCY RISK MANAGEMENT

To control *foreign currency risk* (the risk of losses resulting from changes in currency exchange rates), the Company's assets and liabilities held in each of the jurisdictions in which it conducts business are predominantly denominated in local currencies. This approach, together with the requirement for the Company's non-Canadian operations to function on a self-sustaining basis, provides an effective operational hedge against currency fluctuations. Foreign exchange controls imposed by jurisdictions in which the Company carries on business do not have a material impact on the Company's business or operations.

DERIVATIVE RISK MANAGEMENT

As part of its asset/liability management program, the Company uses derivative instruments, including swaps, financial futures, options and forward contracts, to manage risks associated with currency, interest rate and stock market fluctuations. Guidelines for the use of derivatives specifically prohibit the use of derivative strategies that increase risks beyond the limits established for direct investments.

All hedging instruments used by the Company are marked to market on a monthly basis, and all derivative positions are reported quarterly to the Board of Directors. Each derivative position is monitored as to its purpose and as to whether it is still required for hedging purposes.

The Company generally enters into derivative contracts only with counter-parties rated AA or better. In limited circumstances, the Company will enter into transactions with lower rated counter-parties if the counter-party obligation can be fully collateralized or if other credit enhancement features are included.

Where through its risk management monitoring and control programs the Company identifies a significant embedded guarantee in its protection or wealth management products, which has very high sensitivity to market movements, it will generally undertake to reduce such market sensitivity by using derivative contracts if such can be done on a cost effective basis.

At December 31, 2001, the Company had $17.0 billion notional amount of derivatives outstanding, constituting a credit risk equivalent amount of $1.2 billion. At December 31, 2000, these amounts were $7.3 billion and $290 million, respectively. Keyport has a significant equity index-linked annuity business and uses extensive derivative instruments to manage its exposures to market related risks. Detailed information regarding the Company's derivatives outstanding is provided in Note 34 to the Company's Consolidated Financial Statements.

OPERATIONAL RISK MANAGEMENT

To control *operational risk* (arising from errors, inefficiencies, or a lack of effectiveness of people, processes or systems), the Company has specific policies and guidelines for each business environment in which it is engaged.

The Company's human resources department seeks to ensure that effective people are placed in key positions. Ongoing training through internal and external programs is designed to prepare staff at all levels for the demands of their positions. Operating and reporting processes are reviewed and updated regularly, with monitoring completed on a yearly basis by the internal audit group. Information systems and technology are reviewed regularly and upgraded where necessary.

The Company maintains a comprehensive insurance program that reviews and provides protection against potential losses. This program may include moderate levels of self-insurance. The Company maintains appropriate insurance both on properties that it owns and those securing its mortgage investments.

The Company's environmental risk management program is designed to ensure compliance with applicable laws and to protect investment assets from losses due to environmental problems. The senior investment officer in each national operation is responsible for developing the local environmental policy in conjunction with the corporate office.

Financial Reporting Responsibilities

Management is responsible for preparing the consolidated financial statements. This responsibility includes selecting appropriate accounting policies and making estimates and other judgements consistent with Canadian generally accepted accounting principles including the requirements of the Office of the Superintendent of Financial Institutions Canada. It also includes ensuring the use of appropriate accounting policies and estimates in the disclosure of the information which was prepared following accounting principles generally accepted in the United States of America. The financial information presented elsewhere in the annual report to shareholders is consistent with these statements.

The Board of Directors (Board) oversees management's responsibilities for financial reporting. An Audit Committee of non-management directors is appointed by the Board to review the financial statements and report to the directors prior to their approval of the financial statements for issuance to shareholders.

Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Services of Canada Inc. and its subsidiaries, collectively referred to as "the Company", adhere to legislative and regulatory requirements. These systems include the communication of policies and the Company's code of ethics and business conduct throughout the organization. Internal controls are reviewed and evaluated by the Company's internal auditors.

The Audit Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Company is employing appropriate systems of internal control, is adhering to legislative and regulatory requirements and is applying the Company's code of ethics and business conduct. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management.

The Office of the Superintendent of Financial Institutions Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders, depositors and the public are safeguarded. The Company's foreign operations and foreign subsidiaries are examined by regulators in their local jurisdictions.

The Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the Insurance Companies Act of Canada, and conducts the valuation of the Company's actuarial liabilities. The role of the Appointed Actuary is described in more detail in Note 2 on page 47. The report of the Appointed Actuary appears on page 88.

The Company's external auditors, Deloitte & Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their examination. The auditors' report to the shareholders appears on page 88.

Donald A. Stewart.

Donald A. Stewart
Chairman and Chief Executive Officer

P Derksen

Paul W. Derksen
Executive Vice-President and Chief Financial Officer

Toronto, February 13, 2002

Consolidated Statements of Operations

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars, except for per share amounts)	2001	2000	1999
REVENUE			
Premium income:			
Annuities	$ 4,196	$ 4,371	$ 3,494
Life insurance	3,749	3,455	3,332
Health insurance	1,409	1,287	1,196
	9,354	9,113	8,022
Net investment income *(Note 28)*	4,120	3,776	4,113
Fee income	3,215	3,317	2,606
	16,689	16,206	14,741
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	2,604	2,267	2,864
Annuity payments	952	1,076	923
Death and disability benefits	1,197	1,048	1,005
Health benefits	1,091	1,041	980
Policyholder dividends and interest on claims and deposits	960	1,040	1,206
	6,804	6,472	6,978
Net transfers to segregated funds	2,606	2,562	2,327
Increase in actuarial liabilities *(Note 17)*	1,660	1,604	874
Commissions	1,577	1,612	1,276
Operating expenses *(Note 29)*	2,511	2,433	2,240
Premium taxes	113	116	87
Interest expense *(Notes 20, 21 and 22)*	168	159	161
	15,439	14,958	13,943
OPERATING INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	1,250	1,248	798
Income taxes *(Note 30)*	301	379	418
Non-controlling interests in net income of subsidiaries *(Note 23)*	68	67	46
NET INCOME FROM CONTINUING OPERATIONS	881	802	334
Loss from discontinued operations, net of income taxes *(Note 5)*	–	–	170
TOTAL NET INCOME	881	802	164
Less:			
Net income from mutual operations (prior to demutualization)	–	179	164
Participating policyholders' net income (loss) (after demutualization)	(1)	(6)	–
SHAREHOLDERS' NET INCOME (AFTER DEMUTUALIZATION)	$ 882	$ 629	$ –
Basic earnings per share *(Note 25)*	$ 2.08	$ 1.49[1]	
Diluted earnings per share *(Note 25)*	$ 2.07	$ 1.48[1]	

[1] Basic and diluted earnings per share cover period from March 22 to December 31, 2000.

The attached notes form part of these consolidated financial statements.

Consolidated Balance Sheets

AS AT DECEMBER 31 (in millions of Canadian dollars)	2001	2000*
ASSETS		
Bonds *(Notes 9, 11 and 14)*	$ 48,077	$ 27,534
Mortgages *(Notes 11 and 14)*	8,622	10,179
Stocks *(Notes 9 and 11)*	4,882	4,583
Real estate *(Note 11)*	2,316	2,327
Cash, cash equivalents and short-term securities	4,809	3,962
Policy loans and other invested assets	4,558	2,416
Invested assets	73,264	51,001
Other assets *(Note 16)*	7,064	4,009
Total general fund assets	$ 80,328	$ 55,010
Segregated funds net assets	$ 48,544	$ 49,533
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 17)*	$ 59,527	$ 34,410
Amounts on deposit	1,898	3,864
Deferred net realized gains *(Note 10)*	3,744	3,725
Other liabilities *(Note 19)*	4,661	4,777
Total general fund liabilities	69,830	46,776
Subordinated debt *(Note 21)*	776	749
Cumulative capital securities of a subsidiary *(Note 22)*	954	900
Non-controlling interests in subsidiaries *(Note 23)*	1,043	68
Total equity	7,725	6,517
Total general fund liabilities and equity	$ 80,328	$ 55,010
Segregated funds contract liabilities	$ 48,544	$ 49,533

* As restated *(Note 3)*

The attached notes form part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Donald A. Stewart.

Donald A. Stewart
Chairman and Chief Executive Officer

R.W. Osborne

Ronald W. Osborne
Director

Consolidated Statements of Equity

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)	Participating Policyholders	Shareholders	2001	2000*	1999*
SHARE CAPITAL					
Balance, beginning of year	$ –	$ 795	$ 795	$ -	$
New common shares issued *(Notes 7 and 24)*	–	330	330	844	-
Commissions and offering costs, net of taxes *(Notes 7 and 24)*	–	(23)	(23)	(49)	
Purchase and cancellation of common shares *(Note 24)*	–	(2)	(2)		–
Balance, end of year	–	1,100	1,100	795	–
RETAINED EARNINGS/SURPLUS					
Balance, beginning of year, as previously reported	78	5,478	5,556	5,489	5,325
Change in accounting policy *(Note 3)*	–	(206)	(206)	(206)	(206)
Balance, beginning of year as restated	78	5,272	5,350	5,283	5,119
Demutualization costs, net of taxes *(Note 7)*	–	–	–	(114)	–
Net income as a mutual company	–	–	–	179	164
Balance, March 22, 2000, as at demutualization				5,348	
Cash distribution to policyholders at demutualization	–	–	–	(570)	–
Net income (loss) as a stock company	(1)	882	881	623	–
Dividends on common shares	–	(204)	(204)	(51)	–
Purchase and cancellation of common shares *(Note 24)*	–	(33)	(33)	-	–
Balance, end of year	77	5,917	5,994	5,350	5,283
CURRENCY TRANSLATION ACCOUNT					
Balance, beginning of year	1	371	372	407	756
Changes for the year (prior to demutualization)	–	–	–	(17)	(349)
Changes for the year (after demutualization)	2	257	259	(18)	–
Balance, end of year	3	628	631	372	407
Total equity	$ 80	$ 7,645	$ 7,725	$ 6,517	$ 5,690

* As restated *(Note 3)*

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)	2001	2000	1999
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income from continuing operations	$ 881	$ 802	$ 334
Items not affecting cash:			
Increase in actuarial and other policy related liabilities	1,389	1,494	1,226
Amortization of:			
Net deferred realized and unrealized gains on investments	(445)	(543)	620
Goodwill and deferred acquisition costs	324	283	252
(Gain) or loss on sale of subsidiaries	(195)	5	(25)
Future income taxes	42	82	79
Provisions for losses on investments	4	104	30
Other changes in other assets and liabilities	259	836	797
New mutual fund business acquisition costs capitalized	(296)	(506)	(504)
Redemption fees of mutual funds	105	101	95
Net cash provided by operating activities	2,068	2,658	1,664
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	(104)	(294)	432
Payments to certain participating policyholders and underwriters *(Notes 7 and 24)*	(29)	(658)	
Issuance of common shares *(Notes 7 and 24)*	330	844	-
Issuance of Sun Life ExchangEable Capital Securities – Series A *(Note 23)*	950		
Purchase and cancellation of common shares *(Note 24)*	(35)		
Dividends paid on common shares	(204)	(51)	
Net cash provided by (used in) financing activities	908	(159)	432
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	13,379	9,604	10,188
Mortgages	1,424	1,566	2,506
Stocks	3,241	3,807	2,721
Real estate	240	378	221
Purchases of:			
Bonds	(13,833)	(11,848)	(10,695)
Mortgages	(2,001)	(1,771)	(2,877)
Stocks	(3,278)	(3,190)	(2,458)
Real estate	(118)	(282)	(230)
Policy loans	(88)	(46)	(75)
Short-term securities	(255)	(461)	(475)
Other investments	(319)	30	(321)
Acquisitions, net of cash acquired *(Note 4)*	(1,825)		(43)
Disposals, net of cash disposed of *(Note 4)*	363	160	60
Net cash used in investing activities	(3,070)	(2,053)	(1,478)
Net cash provided by discontinued operations	6	23	47
Changes due to fluctuations in exchange rates	168	36	(132)
Increase in cash and cash equivalents	80	505	533
Cash and cash equivalents, beginning of year	2,503	1,998	1,465
Cash and cash equivalents, end of year	2,583	2,503	1,998
Short-term securities, end of year	2,226	1,459	1,445
Cash, cash equivalents and short-term securities, end of year	$ 4,809	$ 3,962	$ 3,443

Supplementary Information

	2001	2000	1999
Cash and cash equivalents:			
Cash	$ 396	$ 476	$ 698
Cash equivalents	2,187	2,027	1,300
	$ 2,583	$ 2,503	$ 1,998
Cash disbursements made for:			
Interest on borrowed funds, subordinated debt and cumulative capital securities	$ 167	$ 159	$ 161
Income taxes, net of refunds	$ 269	$ 357	$ 76

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Changes in Segregated Funds Net Assets

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)	2001	2000*	1999*
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	$ 5,162	$ 6,860	$ 4,000
Life insurance	689	1,458	137
	5,851	8,318	4,137
Net transfers from general funds	2,606	2,562	2,327
Net realized and unrealized gains (losses)	(7,372)	(2,670)	7,354
Other investment income	1,499	1,331	1,144
	2,584	9,541	14,962
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	6,480	6,243	4,883
Management fees	538	552	465
Taxes and other expenses	67	33	104
Effect of changes in currency exchange rates	(1,824)	(296)	2,608
	5,261	6,532	8,060
Net additions (reductions) to segregated funds for the year	(2,677)	3,009	6,902
Acquisition *(Note 4)*	3,882	–	
Disposal *(Note 4)*	(2,194)	–	
Segregated funds net assets, beginning of year, as restated *(Note 3)*	49,533	46,524	39,622
Segregated funds net assets, end of year	$ 48,544	$ 49,533	$ 46,524

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)	2001	2000*
ASSETS		
Stocks	$ 41,864	$ 42,225
Bonds	4,642	5,146
Cash, cash equivalents and short-term securities	2,508	1,412
Real estate	491	817
Mortgages	162	338
Other assets	379	648
	50,046	50,586
LIABILITIES	1,502	1,053
Net assets attributable to segregated funds policyholders	$ 48,544	$ 49,533

* As restated *(Note 3)*

The attached notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Amounts in millions of Canadian dollars, except for per share amounts and where otherwise stated)

1. Accounting Policies

DESCRIPTION OF BUSINESS

Sun Life Financial Services of Canada Inc., a publicly traded company, is the holding company of Sun Life Assurance Company of Canada. Sun Life Assurance Company of Canada was organized as a mutual life insurance company until March 22, 2000, at which date it demutualized as described in Note 7. Both companies are registered under the Insurance Companies Act of Canada, which is administered by the Office of the Superintendent of Financial Institutions Canada.

Sun Life Financial Services of Canada Inc. together with its wholly-owned consolidated subsidiary Sun Life Assurance Company of Canada (Sun Life Assurance) are collectively referred to as "Sun Life Financial" or "the Company". The Company is an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through its operations in Canada, the United States, the United Kingdom and Asia. The Company also operates mutual fund, investment management, banking and trust businesses, primarily in Canada, the United States and the United Kingdom.

BASIS OF PRESENTATION

For financial statement purposes, the surplus and results of operations of Sun Life Assurance have been presented in the consolidated financial statements of Sun Life Financial Services of Canada Inc. on a continuity of interest basis as a continuation of the historical operations of Sun Life Assurance. Therefore, the surplus, results of operations and cash flows included in these consolidated financial statements prior to demutualization are those of Sun Life Assurance.

The Company prepares its consolidated financial statements according to Canadian generally accepted accounting principles (GAAP) including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities at the date of the financial statements,
- the disclosure of contingent assets and liabilities at the date of the financial statements, and
- the reported amounts of revenues, policy benefits and expenses during the reporting period.

Actual results could differ from those estimates.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements reflect the accounts of the Company which include life insurance and non-life insurance subsidiaries. Significant intercompany balances and transactions have been eliminated. The purchase method is used to account for the acquisition of subsidiaries. The difference between the acquisition cost of a subsidiary and the fair value of the net identifiable assets acquired represents goodwill. Other entities over which the Company is able to exercise a significant influence are reported on the equity basis. The Company's share of earnings of such entities is reported in net investment income in the consolidated statements of operations.

BONDS AND MORTGAGES

Bonds and mortgages are carried at amortized cost, net of allowances for losses. Purchase premiums or discounts on bonds are amortized on a constant yield basis over the life of the particular securities.

Asset-backed securities are carried at cost and adjusted for unamortized premiums and discounts. Unamortized premiums and discounts are amortized on a constant yield basis over the estimated remaining term of the securities adjusted for anticipated prepayments.

A bond or mortgage is classified as impaired when payment is 90 days past due, foreclosure or power of sale procedures have started, or as other circumstances warrant. When an asset is classified as impaired, allowances for losses are established, interest is no longer accrued and previous interest accruals are reversed. When this happens, the carrying value of the asset becomes the net present value of its future estimated

cash flows. Allowances for losses against bonds and mortgages are charged against net investment income and are reduced by write-offs of specific investments and recoveries. Allowances are reduced once the conditions causing the impairment improve and future payments are reasonably assured. The invested asset is then no longer classified as impaired.

Management also establishes general allowances for classes of assets when there is concern about the ultimate collection of principal or interest. The Company's actuarial liabilities include additional provisions for possible future asset losses.

Realized gains and losses on the sales of bonds and mortgages are deferred and amortized into net investment income on a constant yield basis over the remaining period to maturity.

STOCKS

Stocks are originally recorded at cost and the carrying value is adjusted annually by 15% of the difference between market value and previously adjusted carrying value. Realized gains and losses on sales of stocks are deferred and amortized into net investment income at the annual rate of 15% of the unamortized balance.

REAL ESTATE

Real estate includes real estate held for investment and real estate held for sale.

Real estate held for investment: Real estate held for investment is originally recorded at cost. The carrying value is adjusted annually by 10% of the difference between market value and previously adjusted carrying value. Realized gains and losses on sales are deferred and amortized into net investment income at the annual rate of 10% of the unamortized balance.

Market value is determined for each property by qualified appraisers. Appraisals are obtained annually for high value properties and at least once every three years for other properties. The Company monitors the values of these properties to determine that, in aggregate, the carrying values used are not in excess of market values and records a write down for any non-temporary decline in the value of the portfolio.

Real estate held for sale: Properties held for sale are usually acquired through foreclosure. They are carried at the lower of the carrying value of the foreclosed loan or the estimated net sales proceeds of the particular property. The Company estimates the net sales proceeds using independent appraisals or discounted future cash flow analyses. Gains and losses on sales of these properties are recorded in net investment income immediately.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative instruments, including interest rate swaps, currency swaps, financial futures, options and forward contracts, to manage risks associated with currency, interest rate and stock market fluctuations. The Company's monitoring policies are described in Note 34.

Realized and unrealized gains and losses on derivative instruments that are accounted for as hedges of underlying transactions are recognized in income on a basis consistent with the underlying assets or liabilities. Option premiums paid are deferred and amortized to income over the term of the options.

POLICY LOANS

Policy loans are carried at their unpaid balance and are fully secured by the policy values on which the loans are made.

CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES

Cash equivalents are highly liquid investments with a term to maturity of less than three months. Short-term securities are highly liquid investments with a term to maturity exceeding three months but less than one year. They are carried at amortized cost.

OTHER INVESTED ASSETS

Other invested assets include the Company's investment in segregated funds, investments accounted for by the equity method and equipment leases.

DEFERRED ACQUISITION COSTS

Deferred acquisition costs arising on mutual fund sales are amortized over the periods of the related sales charges, which range from three to seven years. Deferred acquisition costs arising on segregated funds are calculated and included in actuarial liabilities.

Actuarial liabilities implicitly include acquisition costs on insurance and annuity product sales.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets. Goodwill arising from acquisitions before July 1, 2001 is amortized on a straight-line basis over varying periods of up to 20 years, but goodwill arising after June 30, 2001 is not amortized. The Company periodically evaluates the carrying amount of goodwill and it is written down when judged to be impaired. Identifiable intangible assets with finite useful lives include primarily the value of the banking distribution channel and are amortized on a straight-line basis over varying periods of up to 20 years.

CAPITAL ASSETS

Furniture, computers, other equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of these assets, which generally range from two to ten years.

SEGREGATED FUNDS

Segregated funds are lines of business in which the Company issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Company and the segregated fund contract holder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. In addition, certain individual contracts have guarantees from the Company.

Segregated fund assets are carried at fair value. Fair values are determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Company. Segregated fund assets may not be applied against liabilities that arise from any other business of the Company.

The investment results of the segregated funds are reflected directly in segregated fund liabilities. Deposits to segregated funds are reported as increases in segregated fund liabilities and are not reported as revenues in the consolidated statements of operations.

The Company derives fee income from segregated funds. Fee income includes fund management fees, income earned by the Company on capital invested in the funds as well as mortality, policy administration and surrender charges on segregated funds. Changes in the Company's interest in the segregated funds, including undistributed net investment income, are reflected in net investment income. Separate consolidated financial statements are provided for the segregated funds net assets and the changes in net assets.

AMOUNTS ON DEPOSIT

Amounts on deposit represent premiums paid in advance, reinvested policy dividends and customer deposits in the Company's banking and trust subsidiaries.

INCOME TAXES

The Company uses the liability method of tax allocation. Under this method, the income tax expense consists of both an expense for current income taxes and an expense for future income taxes. Current income tax expense (recoverable) represents the expected payable (receivable) resulting from the current year's operations. Future income tax expense (recoverable) represents the movement during the year in the cumulative temporary differences between the carrying value of the Company's assets and liabilities on the balance sheet and their values for tax purposes. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

Future income tax liabilities and assets are calculated based on income tax rates and laws that, at the balance sheet date, are expected to apply when the liability or asset is realized, which are normally those enacted or considered substantively enacted at the consolidated balance sheet dates.

In determining the impact of taxes, the Company is required to comply with the standards of both the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants. Actuarial standards require that the projected timing of all cash flows associated with policy liabilities, including income taxes, be included in the determination of actuarial liabilities under the Canadian asset liability method.

The actuarial liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences that have already occurred. Future income tax assets and/or liabilities arising from temporary differences that have already occurred are computed without discounting. The undiscounted future income tax assets and/or liabilities are reclassified from the actuarial liabilities to future income taxes on the balance sheets. The net result of this reclassification is to leave the discounting effect of the future income taxes in the actuarial liabilities.

PREMIUM INCOME AND RELATED EXPENSES

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

FOREIGN CURRENCY TRANSLATION

The Company's exchange gains and losses arising from the conversion of its self-sustaining foreign operations are included in the currency translation account of the consolidated statements of equity. Revenues and expenses in foreign currencies, including amortized gains and losses on foreign investments, are translated into Canadian dollars at an average of the market exchange rates during the year. Assets and liabilities are translated into Canadian dollars at market exchange rates at the end of the year. The net translation adjustment is reported as a separate item in the consolidated statements of equity.

EMPLOYEE FUTURE BENEFITS

Pension costs related to current service are charged to income as services are rendered. Based on management's best estimate assumptions, actuarial valuations of the pension obligations are determined using the projected benefit method prorated on service. The estimated present value of post-retirement health care and life insurance benefits is charged to income over the employees' years of service to the date of eligibility. For the purpose of calculating the expected return on pension plan assets, a market-related asset value is used which recognizes asset gains and losses emerging after January 1, 2000 over a five-year period. Any transition adjustments, as well as future adjustments arising from plan amendments, are amortized to income over the estimated average remaining service life of the members covered by the plan. Only future variations in actuarial estimates in excess of certain minimums will be amortized.

2. Actuarial Policies

Actuarial liabilities and other policy liabilities, including policy benefits payable and provision for policyholder dividends, are computed using generally accepted actuarial practice in accordance with the standards established by the Canadian Institute of Actuaries including the requirements of the Office of the Superintendent of Financial Institutions Canada.

Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, future benefits, policyholders' dividends, taxes (other than income taxes) and expenses on in-force policies.

In calculating actuarial liabilities and other policy liabilities, assumptions must be made about the timing and amount of many events, including death, disability, investment, inflation, policy termination, expenses, taxes, premiums, commissions and policyholder dividends.

The Company uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and may require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income.

Reinsurance is used to limit exposure to large losses on life and disability products. The Board approves the Company's individual life insurance retention policy and limits which require that such arrangements be placed with well-established, highly rated reinsurers. Coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. Actuarial liabilities are shown net of ceded reinsurance. Although reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders.

The significant actuarial policies and assumptions are summarized below.

MORTALITY

Mortality refers to the rate at which death occurs for a defined group of people. Insurance mortality is generally based on the Company's average five-year experience. For annuities, Company experience is combined with industry experience, since the Company's own experience is insufficient to be statistically reliable. Assumed future mortality rates on annuities are adjusted to reflect expected improvements in mortality. Assumed mortality rates for life insurance contracts do not reflect any future improvement which might occur.

MORBIDITY

Morbidity refers to the disability rate for a defined group of people. Most of the Company's disability insurance is marketed on a group basis. In Canada, morbidity assumptions are based on the Company's five-year average experience, modified to reflect the trend in recovery rates. In the United States and the United Kingdom, both industry and Company experience is used because the Company's own experience is not sufficient to set a reliable assumption.

INVESTMENT RETURN

The Company generally maintains distinct asset portfolios for each line of business. To ensure the adequacy of assets backing the liabilities, the Company does cash flow testing using a set of plausible future interest rates and economic environments as well as a set of prescribed scenarios. In each test, asset and liability cash flows are projected. Net cash flows are invested in new assets, if positive, or assets are sold to meet cash needs, in accordance with the assumptions in the test and the standards of the Canadian Institute of Actuaries. Whenever needed, specific assumptions are made for cyclical credit risks that exceed the long-term expectation. The actuarial liability is at least as great as that determined under the worst of the prescribed scenarios as defined by the standards of the Canadian Institute of Actuaries. Deferred net realized gains are taken into account in establishing the actuarial liabilities.

POLICY LAPSE RATES

Policyholders may allow their policies to lapse by choosing not to continue to pay premiums. Assumptions for lapse experience on life insurance are based on the Company's average five-year experience. Lapse rates vary by plan, age at issue, method of premium payment and policy duration. For universal life contracts, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. Studies prepared by industry or actuarial bodies are used for certain products where the Company's experience is too limited to be statistically valid.

OPERATING EXPENSES AND INFLATION

Actuarial liabilities provide for future policy-related expenses. These include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overhead. Expense assumptions are mainly based upon recent Company experience using an internal expense allocation methodology. The increases assumed in future expenses are consistent with the inflation rate used in the scenario testing under the standards established by the Canadian Institute of Actuaries.

PROVISION FOR POLICYHOLDER DIVIDENDS

An amount equal to the policyholder dividends expected to be allotted to policyholders over the next twelve months is shown as a provision for policyholder dividends. Actuarial liabilities provide for the payment of future policyholder dividends beyond the next twelve months. Both liabilities are determined taking into account the scale of dividends approved by the Board and the expectation that future dividends will be adjusted to reflect future experience.

ROLE OF THE APPOINTED ACTUARY

The Appointed Actuary is appointed by the Board and is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.

The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet dates to meet all obligations to policyholders of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The Appointed Actuary is required each year to analyze the financial condition of the Company and prepare a report for the Board. The 2001 analysis tested the capital adequacy of the Company until December 31, 2005 under various adverse economic and business conditions.

3. Changes in Accounting Policies

ADOPTED IN 2001

Actuarial Liabilities: On October 1, 2001, the Company adopted the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers of the Canadian Institute of Actuaries in which the policy premium method was replaced by the Canadian asset liability method. This change in accounting policy was applied retroactively and resulted in the following changes in previously reported retained earnings/surplus, currency

translation account, actuarial liabilities and segregated funds net assets. The 2000 and 1999 restated columns are denoted by "As restated" where presented in the consolidated financial statements. The net income increased by $3, currency translation account decreased by $6 and actuarial liabilities increased by $3 in 2001 due to the change in accounting policy.

	2000	1999
Decrease in retained earnings/surplus as at January 1	$ 206	$ 206
Cumulative increase in currency translation account	26	18
Increase in actuarial liabilities as at December 31	$ 180	$ 188
Increase in segregated funds net assets as at January 1	$ 510	$ 409
Increase in net additions to segregated funds for the years	282	101
Increase in segregated funds net assets as at December 31	$ 792	$ 510

Earnings per Share: The Company adopted Earnings Per Share, the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3500, on January 1, 2001, which requires the use of the treasury stock method to determine the dilutive effect of options, warrants and equivalents in the calculation of earnings per share. This change in accounting policy was applied retroactively and the new standard did not significantly impact the Company's earnings per share disclosures.

Business Combinations and Goodwill and Other Intangible Assets: The Company adopted Business Combinations, CICA Handbook Section 1581, on July 1, 2001. The new standard requires that acquisitions of businesses be accounted for using the purchase method. This method involves allocating the purchase price of the acquisition to the assets acquired, including the identifiable intangible assets, and the liabilities assumed based on their fair values at the date of acquisition. Any excess is then recorded as goodwill. The Company also adopted the transitional provisions of Goodwill and Other Intangible Assets, CICA Handbook Section 3062, on July 1, 2001. These provisions require that goodwill and intangible assets with indefinite lives arising from acquisitions on or after that date not be amortized. This change in accounting policy was applied prospectively and its impact was not material to these consolidated financial statements.

Transfers of Receivables: The Company adopted Transfers of Receivables, CICA Handbook Accounting Guideline 12, to account for asset securitizations made on or after July 1, 2001. The new standard requires securitizations to be recorded as sales, when control over the assets has been surrendered and consideration other than beneficial interests in these transferred assets has been received in exchange. This change in accounting policy was applied prospectively and its impact was not material to these consolidated financial statements.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Goodwill and Other Intangible Assets: The Company will adopt all of the provisions of Goodwill and Other Intangible Assets, CICA Handbook Section 3062, on January 1, 2002. This standard requires that intangible assets with an indefinite life and goodwill be tested for impairment on an annual basis and not be amortized. The impact of this change is not expected to be material to the consolidated financial statements.

Stock-Based Compensation and Other Stock-Based Payments: The Company will adopt Stock-based Compensation and Other Stock-based Payments, CICA Handbook Section 3870, on January 1, 2002. The new Section requires that stock-based payments to non-employees and direct awards of stocks be accounted for using the fair value method. It also requires that stock appreciation rights (SAR) to be settled in cash be recorded as liabilities for the difference between the option price and quoted market price of the stocks. SAR to be settled by equity instruments are to be measured using the fair value method or in a manner similar to the accounting for SAR settled in cash. The new Section encourages, but does not require, the use of the fair value method to account for all other stock-based transactions with employees. The impact of this change is not expected to be material to the consolidated financial statements.

Hedging Relationships: The Company will adopt Hedging Relationships, CICA Handbook Accounting Guideline 13, on January 1, 2003. The Accounting Guideline requires that all conditions with respect to identification, documentation, designation and effectiveness of hedges be satisfied before companies choose to use hedge accounting. These conditions are applicable to hedges existing on or after January 1, 2003. The Company will determine the impact of implementing this accounting guideline on the consolidated balance sheets and consolidated statements of operations in 2002.

4. Acquisitions and Disposals

On December 17, 2001, the Company entered into an agreement with Clarica Life Insurance Company (Clarica) to acquire all the outstanding common shares of Clarica that are currently not beneficially owned by the Company as general fund assets, for an ascribed price of $51.28 per Clarica common share. The acquisition would be completed by way of a capital reorganization of Clarica pursuant to which holders of Clarica common shares would receive 1.5135 common shares of Sun Life Financial Services of Canada Inc. for each Clarica common share held. It is expected that approximately 186 million common shares of Sun Life Financial Services of Canada Inc. would be issued at an ascribed price of $33.88 per share based on a volume-weighted average closing price of the common shares for the period of December 13 to 19, 2001. This transaction is valued at approximately $6.3 billion excluding the cost of Clarica common shares that the Company already beneficially owns and transaction costs. Subject to the approvals of the shareholders and voting policyholders of Clarica and the receipt of all applicable regulatory approvals, the acquisition is expected to close in the second quarter of 2002.

Effective December 7, 2001 and November 30, 2001, respectively, the Company sold all the common shares of SLC Asset Management Limited (SLCAM), an asset management company, together with two affiliated companies, and all the common shares of Sun Bank plc (SB), a bank specializing in mortgage and savings products. The sale of SLCAM and its affiliated companies resulted in a reduction in segregated fund net assets in respect of funds invested for third party pooled pension customers. The gains on sales of the United Kingdom subsidiaries were $195 before related taxes of $70 and these gains were included in net investment income. Proceeds from the sales of the subsidiaries are intended to be used for general corporate purposes. The proceeds presented in this note are net of disposition costs of $34 and $7 for SLCAM and SB, respectively. These costs were primarily professional fees, commissions and impact on actuarial liabilities.

Effective October 31, 2001, the Company acquired all the outstanding common shares of Keyport Life Insurance Company (Keyport) and Independent Financial Marketing Group, Inc. (IFMG) for a cash payment of U.S.$1,702. Keyport is a Boston-based insurance company providing a diversified line of fixed, indexed and variable annuity products and IFMG is a leading third-party marketer of insurance and investment products to retail customers through banks in the United States. The business acquired includes both general and segregated funds business. The Company expects the acquisition will complement its product array and its distribution capabilities. Results are included in the consolidated statements of operations since the date of the acquisitions. The goodwill of Keyport and IFMG was assigned to the Sun Life segment in the United States, of which $521 is expected to be deductible for tax purposes.

On April 10, 2000, the sale of the reinsurance business closed as described in Note 5 on discontinued operations.

Effective March 1, 2000, the Company sold all the common shares of Sun Life Trust Company (SLT), a Canadian deposit taking, mortgage lending and trust services company. Proceeds from the sale, net of applicable taxes, recovered SLT's carrying value.

Effective October 29, 1999, the Company sold all the shares of its United States federal savings bank and trust subsidiary, New London Trust, F.S.B. (NLT). The transaction resulted in a gain of $34 before related taxes of $15.

Effective May 19, 1999, the Company (through three wholly-owned subsidiaries) acquired 50.001% of the equity of Birla Sun Life Distribution Company Limited (formerly known as Birla Finance Distributors Limited), 50.0% of the equities of Birla Sun Life Asset Management Company Limited (formerly known as Birla Capital International AMC Limited) and Birla Sun Life Trustee Company Limited (formerly known as Birla Capital International Trustee Company Limited), and 49.0% of the equity of Birla Sun Life Securities Limited (formerly known as Birla Marlin Securities Limited). These companies are collectively referred to as "Birla" and comprise a new marketing and distribution company, a mutual fund management company, the trustee of the Birla Mutual Fund, and a securities brokerage company in India. The acquisition was accounted for by the purchase method. Results are included in the consolidated statements of operations from the date of acquisition.

Effective February 5, 1999, the Company sold its United States individual disability insurance subsidiary, Massachusetts Casualty Insurance Company (MCIC). Proceeds from the sale, net of applicable taxes, recovered MCIC's carrying value.

The transactions are summarized below:

	Acquisitions				Disposals		
	Keyport/IFMG	Birla	SLCAM	SB	NLT	MCIC	SLT
Invested assets acquired / disposed of	$ 22,504	$ 4	$ 67	$ 2,604	$ 419	$ 365	$ 1,929
Other assets acquired / disposed of	1,328	17	41	37	6	17	52
	23,832	21	108	2,641	425	382	1,981
Actuarial liabilities and other policy liabilities acquired / disposed of	22,554	–	–	–	–	316	–
Amounts on deposit acquired / disposed of	–	–	–	2,417	394	1	1,739
Other liabilities acquired / disposed of	482	13	41	100	24	5	77
	23,036	13	41	2,517	418	322	1,816
Net balance sheet assets acquired / disposed of	796	8	67	124	7	60	165
Cash cost of acquisition / net proceeds of disposal	2,744	43	242	144	41	51	160
Goodwill on acquisition / pre tax gain (loss) on sale	$ 1,948	$ 35	$ 175	$ 20	$ 34	$ (9)	$ (5)
Goodwill amortization period in years[1]		15					
Cash acquired (disposed of)	$ 919	$ –	$ (23)	$ –	$ (32)	$ –	$ –

[1] Goodwill arising from the acquisition of Keyport and IFMG is not amortized.

5. Discontinued Operations

The Company adopted a formal plan of disposal for its reinsurance operations on December 15, 1999. On April 10, 2000, the transaction to sell the life retrocession and financial reinsurance lines of the reinsurance business closed after receiving all of the necessary regulatory approvals. The portion of the reinsurance business which was not included in the sale, primarily the accident and health reinsurance business, has been discontinued as the Company has stopped writing such business and has closed its existing block of business. Certain of the arrangements in the business remaining with the Company are subject to litigation or arbitration. The liabilities of the Company under these arrangements are subject to measurement uncertainty, but this is not expected to have a material adverse effect on the consolidated financial position of the Company.

The impact of discontinued operations is excluded from the results of operations and reported separately below net income from continuing operations in the consolidated statements of operations. The loss from discontinued operations for 1999 includes the results of discontinued operations prior to December 15, 1999 of $20 after taxes as well as the net loss from discontinued operations after December 15, 1999 of $150 after taxes. The net loss from discontinued operations in 1999 includes the estimated net loss from the discontinued operations after December 15, 1999 of $229, net of taxes of $121, and the estimated gain on the sale of the life retrocession and financial reinsurance lines of $79, net of taxes of $43, based on proceeds of $171. The sale transaction closed in the second quarter of 2000. Sale proceeds of $171 were received and balance sheet assets of $535 and liabilities of $499 were disposed of. The actual gain on the sale was $79, net of taxes of $43. Included in the estimated net loss from discontinued operations in 1999 are the provisions established in connection with Cragwood Managers, LLC (formerly Unicover Managers, Inc.) business of $150 after taxes which is further described in Note 32. Estimated costs and expenses related to the decision to discontinue the reinsurance operations have been included in the net loss from discontinued operations.

The components of the impact from discontinued operations shown in the consolidated statements of operations are as follows:

	2001	2000	1999
[illegible]	$ 126	$ 340	$ 868
EXPENSES	121	333	902
Net income (loss) from discontinued operations before taxes	5	7	(34)
Income taxes expense (benefit)	5	7	(14)
Net income (loss) from discontinued operations for the period ended December 15, 1999			(20)
Net income (loss) from discontinued operations after December 15, 1999	–	–	(150)
Income (loss) from discontinued operations, net of income taxes	$ –	$ –	$ (170)

The following amounts relating to discontinued operations are included in the consolidated balance sheets:

	2001	[illegible]
ASSETS		
Invested assets	$ 614	$ 683
Other assets	292	316
Total assets	$ 906	$ 999
LIABILITIES		
Actuarial liabilities and other policy liabilities	$ 607	$ 767
Other liabilities	299	232
Total liabilities	$ 906	$ 999

6. Restructuring of the United Kingdom Operations

In February 2001, the Board approved a restructuring of the Company's United Kingdom operations. As a result, the Company decided to exit the direct sales force distribution channel and significantly reduce the scale of its operations by the end of 2003. During the year, severance, asset write-offs and other related costs of $195 were expensed as part of the operating expenses in the consolidated statements of operations. As at December 31, 2001, the accruals for the restructuring costs were $33. Cost savings relating to exiting the direct sales force distribution channel were also realized during this period.

SUBSEQUENT EVENT

On January 14, 2002, the Company announced an agreement with the Marlborough Stirling group to outsource the administration of the Company's individual life and pension business in the United Kingdom which has already been closed for new business. The group insurance business will not be affected by this agreement.

7. Demutualization

Sun Life Assurance Company of Canada was organized as a mutual life insurance company until March 22, 2000. On that date, Sun Life Assurance Company of Canada converted to a stock life insurance company with common shares following the approvals of its plan to demutualize by policyholders and the Minister of Finance (Canada). Sun Life Financial Services of Canada Inc. was incorporated on August 5, 1999 under the Insurance Companies Act of Canada and on March 22, 2000, became an insurance holding company owning all of the outstanding shares of Sun Life Assurance Company of Canada. To effect the conversion, Sun Life Financial Services of Canada Inc. issued a total of 400 million common shares, of which 46 million common shares were issued to underwriters at $12.50 per share and 97 million common shares were sold in a secondary offering on behalf of certain eligible participating policyholders outside Canada who elected, or were otherwise required, to sell their common shares under the terms of demutualization. The remaining 257 million common shares were issued to certain participating policyholders. Proceeds from the common shares issued to the underwriters amounted to $576 and were used to fund payments to certain participating policyholders at demutualization. External costs in respect of demutualization of $114 after taxes were treated as a capital transaction and were deducted from the surplus of Sun Life Assurance Company of Canada. All underwriting commissions and offering costs of issuing common shares of $43 after taxes were treated as a capital transaction and deducted from the share capital of Sun Life Financial Services of Canada Inc.

In connection with the initial public offering, Sun Life Financial Services of Canada Inc. granted the underwriters over-allotment options to purchase up to 22 million common shares from treasury at a price of $12.50 per share. The over-allotment options were exercisable for a period of 30 days after the closing of the offering. These options were fully exercised and the common shares were issued on April 4, 2000 for total proceeds of $268, less underwriting costs of $6 after taxes. The proceeds were used for general corporate purposes.

On demutualization, Sun Life Assurance Company of Canada allocated sufficient assets for individual participating policies sold prior to demutualization to meet contractual obligations, to protect policyholders' reasonable expectations in respect of future policy dividends and to meet other non-guaranteed policy benefits. These assets and earnings on this business are not available to the shareholders.

To support the participating policies that Sun Life Assurance Company of Canada expects to issue over at least the five-year period after demutualization, initial capital of $84 was allocated from the shareholders' account. Subject to regulatory approval, the capital of $84 with accrued interest may generally be transferred to the shareholders' account if the capital is no longer required to support the new participating policies after the five-year period.

8. Fair Value of Financial Instruments

The fair values of the Company's financial instruments are shown in the following table. For completeness, all other general funds assets and liabilities, subordinated debt and cumulative capital securities are also included.

The difference between the fair values of tangible assets and liabilities, detailed below, should not be used as an estimate of the market value of the Company.

	2001		2000*	
	Carrying Value	Fair Value	Carrying Value	Fair Value
ON-BALANCE SHEET				
ASSETS				
Bonds	$ 48,077	$ 49,311	$ 27,534	$ 28,845
Mortgages	8,622	9,144	10,179	10,598
Stocks	4,882	4,370	4,583	4,545
Real estate	2,316	2,550	2,327	2,580
Policy loans	2,408	2,408	1,276	1,276
Cash, cash equivalents and short-term securities	4,809	4,809	3,962	3,964
Other invested assets	2,150	2,171	1,140	1,169
Invested assets	73,264	74,763	51,001	52,977
Future income taxes	968	639	334	–
Other assets excluding future income taxes	6,096	6,096	3,675	3,675
Total general fund assets	$ 80,328	$ 81,498	$ 55,010	$ 56,652
LIABILITIES				
Actuarial liabilities	$ 57,858	$ 61,852	$ 32,778	$ 36,913
Amounts on deposit	1,898	1,898	3,864	3,864
Policy benefits payable	864	864	802	802
Provision for policyholder dividends	805	805	830	830
Deferred net realized gains	3,744	–	3,725	–
Future income taxes	329	529	325	636
Other liabilities excluding future income taxes	4,332	4,332	4,452	4,452
Total general fund liabilities	$ 69,830	$ 70,280	$ 46,776	$ 47,497
Subordinated debt	$ 776	$ 815	$ 749	$ 778
Cumulative capital securities of a subsidiary	$ 954	$ 968	$ 900	$ 807
OFF-BALANCE SHEET NET POSITIVE / (NET NEGATIVE) FAIR VALUE				
Derivative financial instruments (Note 34)	$ –	$ 37	$ –	$ (6)

* As restated *(Note 3)*

A significant portion of any difference between fair values and carrying values relates to assets that are matched to liabilities as to duration, within specified limits. If these assets are sold before maturity, the Company will reinvest the proceeds to ensure there are sufficient assets to match liabilities. Consequently, changes in the fair values of assets backing liabilities will tend to be offset by changes in the fair values of those liabilities.

In an exchange of financial instruments, "fair value" refers to the amount that would be agreed upon between willing knowledgeable parties. Consequently the estimated fair values do not necessarily represent the values for which these financial instruments could have been sold at the dates of the consolidated balance sheets. The methods and assumptions used to estimate fair value are given below.

Items with fair value equal to carrying value: Due to their nature, the fair values of policy loans, cash and cash equivalents, other assets excluding future income taxes, policy benefits payable, provision for policyholder dividends and other liabilities excluding future income taxes are assumed to be equal to their carrying values. The carrying value of goodwill is included in the "other assets excluding future income taxes" line in this note and is also disclosed in Note 16.

Bonds: For publicly traded bonds, fair value is determined using quoted market prices. For bonds without a readily ascertainable market price, the Company has determined an estimated fair value using a discounted cash flow approach, including provisions for credit risk, generally based upon the assumption that such securities will be held to maturity.

Mortgages: Fair value of mortgages is determined by discounting the expected future cash flows using current market interest rates for mortgages with similar credit risks and terms to maturity.

Stocks: Fair value of stocks is based on quoted market prices, usually the last trade values.

Real estate: Fair value of real estate is determined by referring to sales of comparable properties in the marketplace and the net present value of the expected future cash flows, discounted using current interest rates.

Short-term securities: Fair value of short-term securities is based on market yields.

Other invested assets: Fair value is determined by reference to market prices for similar investments.

Future income taxes: Fair value of future income taxes represents the amount that would be recognized on the balance sheet if the financial instruments were measured at fair value.

Actuarial liabilities: Fair value of actuarial liabilities is determined by reference to the fair value of the assets supporting those liabilities.

Amounts on deposit: Fair value of fixed rate deposits is determined by discounting the expected future cash flows using current market interest rates for similar deposits. For amounts on deposit with no stated maturity, fair value is equal to carrying value.

Deferred net realized gains: When financial assets and liabilities are measured at fair value, deferred net realized gains no longer exist.

Subordinated debt: Fair value is based on market prices for the same or similar instruments as appropriate.

Cumulative capital securities of a subsidiary: Fair value of the cumulative capital securities is based on market prices for those instruments.

Derivative financial instruments: Fair values of interest rate contracts and foreign exchange contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair values of options, financial futures and common stock index swaps are based on the quoted market prices or the values of the underlying securities or indices.

9. Unrealized Gains and Losses

Gross unrealized gains (losses) on bonds, issued or guaranteed by the following parties, are as follows:

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 1,970	$ 69	$ (5)	$ 2,034
Canadian provincial and municipal governments	2,598	293	(25)	2,866
U.S. Treasury and other U.S. agencies	1,574	28	(15)	1,587
Other foreign governments	3,495	144	(57)	3,582
Corporate	29,194	1,184	(292)	30,086
Asset-backed securities	9,246	24	(114)	9,156
Total bonds	$ 48,077	$ 1,742	$ (508)	$ 49,311

	2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 2,481	$ 68	$ (4)	$ 2,545
Canadian provincial and municipal governments	3,012	300	(15)	3,297
U.S. Treasury and other U.S. agencies	893	39	(4)	928
Other foreign governments	3,166	214	(27)	3,353
Corporate	16,557	1,044	(317)	17,284
Asset-backed securities	1,425	29	(16)	1,438
Total bonds	$ 27,534	$ 1,694	$ (383)	$ 28,845

Bonds are carried at amortized cost, net of allowances for losses, in the consolidated financial statements. Gross unrealized gains and losses on bonds are not brought into income nor are they included in the carrying value. The fair value is determined as described in Note 8.

Gross unrealized gains (losses) on stocks are as follows:

	Carrying Value	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Total 2001	$ 4,882	$ 3,666	$ 992	$ (288)	$ 4,370
Total 2000	$ 4,583	$ 3,294	$ 1,552	$ (301)	$ 4,545

Stocks are originally recorded at cost. The carrying value of stocks in the consolidated financial statements is adjusted annually by 15% of the difference between market value and previously adjusted carrying value. The total amount of unrealized gains and losses for stocks and real estate taken into income in the year is shown in Note 28.

10. Deferred Net Realized Gains

Deferred net realized gains are realized gains and losses which have not yet been recognized in income. The following deferred amounts will be amortized into future net investment income:

	2001	2000
Bonds	$ 1,678	$ 1,597
Mortgages	62	59
Stocks	1,851	1,940
Real estate	165	151
Derivatives	(12)	(22)
Total	$ 3,744	$ 3,725

Changes in deferred net realized gains are as follows:

	2001	2000
Deferred net realized gains, January 1	$ 3,725	$ 3,356
Net realized investments gains (losses) for the period:		
Bonds	201	199
Mortgages	17	23
Stocks	189	683
Real estate	28	30
Derivatives	6	12
Amortization of deferred net realized gains (Note 28)	(517)	(534)
Effect of changes in currency exchange rates	95	(44)
Deferred net realized gains, December 31	$ 3,744	$ 3,725

11. Credit and Concentration Risk Management

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest or principal when due. The Company controls credit risk through detailed credit and underwriting policies, as well as counterparty exposure limits.

It is the Company's policy to diversify all investment portfolios. Except for sovereign country issuers where the Company carries on business or for issuers where the Board has granted specific approval, Company policy limits credit exposure to 4% of consolidated equity invested in any single issuer and to 8% of consolidated equity invested in any associated group of issuers.

Investment grade bonds are those rated BBB and above. The Company's bond portfolio has 94.5% (99.0% in 2000) invested in investment grade bonds based on carrying value.

The Company's mortgage loans, stocks and real estate investments are diversified by type and location and, for mortgage loans, by borrower. Mortgage loans are collateralized by the related property and generally do not exceed 75% of the value of the property at the time the original loan is made.

The Company's investments in bonds, mortgages, stocks and real estate are shown in the tables below:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds by investment grade:				
AAA	$ 13,812	$ 13,951	$ 9,264	$ 9,665
AA	5,324	5,692	4,110	4,516
A	13,444	13,955	7,873	8,234
BBB	12,845	13,083	6,001	6,127
BB & lower	2,652	2,630	286	303
Total bonds	$ 48,077	$ 49,311	$ 27,534	$ 28,845

Breakdown of bonds, mortgages, stocks and real estate by geographic location, as opposed to reportable segment, is as follows:

	2001				
	Bonds by Issuer Country	Mortgages Non-residential	Mortgages Residential	Stocks by Issuer Country	Real Estate
Canada	$ 9,992	$ 2,062	$ 1,763	$ 1,088	$ 921
United States	28,495	4,339	142	1,033	879
United Kingdom	6,724	315	1	2,185	513
Other	2,866	–	–	576	3
Total	$ 48,077	$ 6,716	$ 1,906	$ 4,882	$ 2,316

	2000				
	Bonds by Issuer Country	Mortgages Non-residential	Mortgages Residential	Stocks by Issuer Country	Real Estate
Canada	$ 10,393	$ 2,292	$ 1,803	$ 667	$ 901
United States	9,715	3,514	137	1,054	849
United Kingdom	6,000	558	1,872	2,193	575
Other	1,426	3	–	669	2
Total	$ 27,534	$ 6,367	$ 3,812	$ 4,583	$ 2,327

Residential mortgages include mortgages for single and multiple family dwellings.

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Real estate by type:				
Held for investment	$ 2,294	$ 2,521	$ 2,262	$ 2,508
Held for sale	22	29	65	72
Total real estate	$ 2,316	$ 2,550	$ 2,327	$ 2,580

12. Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which exceeds the market value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency, in securities lending transactions. At December 31, 2001, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $2,428 and $2,453, respectively.

13. Interest Rate Risk Management

Interest rate risk is the potential for financial loss arising from changes in interest rates. For example, the Company is exposed to this risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses, or re-invest excess asset cash flows under unfavourable interest environments.

To manage this risk, a matching policy is established for each portfolio of assets and related liabilities. Asset/liability management programs are in place to implement this policy. The primary approach used is duration analysis, which measures the sensitivity of assets and liabilities to

interest rate changes across the entire yield curve. Partial duration analysis is used to examine the duration gap of assets and liabilities at discrete intervals on the yield curve. These gaps are managed within specified tolerance limits.

Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with adequate provisions to absorb moderate changes in interest rates.

For certain product types, including participating insurance and certain forms of universal life policies and annuities, the effect of changes in the interest rate environment will be largely passed through to policyholders as changes to the amount of dividend declared or to the rate of interest credited in accordance with the nature of the contract and policy terms. Changes to dividends declared and the rate of interest credited occur routinely as interest rates change, and reflect the normal operation of these policies according to their contractual terms.

Among the different lines of insurance business, annuities are the most sensitive to changes in interest rates. The annuity business represents 59% of the Company's total actuarial liabilities. For the Company's annuity business, an immediate 1% increase in interest rates at December 31, 2001 across the entire yield curve, assuming the Company was unable to take any investment action to mitigate the impact of this change, would result in an estimated decrease in net income of $123. Conversely, an immediate 1% decrease in interest rates, again, assuming the Company was unable to take any investment action to mitigate the impact of this change, would result in an estimated increase in net income of $85. The following table shows the expected cash flows for annuity business:

	2001				
	Under 1 year	1 to 5 years	Over 5 years to 10 years	10 years or more	Total
CANADA					
Assets	$ 1,427	$ 3,689	$ 2,344	$ 3,118	$ 10,578
Liabilities	1,275	3,698	1,819	3,796	10,588
Cash flow gap	$ 152	$ (9)	$ 525	$ (678)	$ (10)
UNITED STATES					
Assets	$ 4,785	$ 14,184	$ 9,612	$ 4,060	$ 32,641
Liabilities	4,680	14,749	6,758	3,531	29,718
Cash flow gap	$ 105	$ (565)	$ 2,854	$ 529	$ 2,923
UNITED KINGDOM					
Assets	$ 266	$ 948	$ 1,258	$ 4,934	$ 7,406
Liabilities	246	978	1,199	5,033	7,456
Cash flow gap	$ 20	$ (30)	$ 59	$ (99)	$ (50)

14. Contractual Maturities

The contractual maturity of bonds at December 31 is shown below. The interest rate risk, which is the potential for financial loss due to interest rate fluctuations, is included in Note 13.

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ 1,717	$ 1,728	$ 1,252	$ 1,249
Due in years two through five	10,330	10,526	5,725	5,806
Due in years six through ten	11,008	11,366	5,516	5,729
Due after ten years	15,776	16,535	13,616	14,623
Asset-backed securities	9,246	9,156	1,425	1,438
Total bonds	$ 48,077	$ 49,311	$ 27,534	$ 28,845

Bonds not due at a single maturity date have been included in the above table in the year of final maturity. Actual maturities may differ from contractual maturities because of the Company's right to call or the borrower's right to prepay obligations, with or without call or prepayment penalties. Asset-backed securities, which are not due at a single maturity date, are shown separately.

At December 31, 2001, scheduled mortgage loan maturities before any allowances are as follows: 2002 – $771; 2003 – $492; 2004 – $400; 2005 – $493; 2006 – $786; and $5,740 thereafter. Actual maturities could differ from contractual maturities because borrowers may have the right to prepay obligations, with or without prepayment penalties.

15. Allowances for Losses on Invested Assets

The Company has impaired invested assets and foreclosed properties held for sale with specific allowances, and other general allowances, at December 31, as follows:

		2001		2000	
		Carrying Value before Allowance for Impaired Invested Assets	Allowances for Losses	Carrying Value before Allowance for Impaired Invested Assets	Allowances for Losses
Mortgages	– impaired, with allowance for losses	$ 15	$ 5	$ 38	$ 6
	– impaired, with no allowance for losses	17	–	6	–
	– general allowance	–	55	–	50
Bonds	– specific allowance	210	17	137	81
	– general allowance	–	49	–	27
Foreclosed properties	– specific allowance	17	4	36	7
Other	– specific allowance	1	1	2	2
	– general allowance	–	–	–	1
Total		$ 260	$ 131	$ 219	$ 174

Changes in the allowances for losses are as follows:

	2001			2000			1999		
	Mortgages	Bonds	Foreclosed Properties and Other	Mortgages	Bonds	Foreclosed Properties and Other	Mortgages	Bonds	Foreclosed Properties and Other
Balance, January 1	$ 56	$ 108	$ 10	$ 93	$ 50	$ 8	$ 132	$ 24	$ 13
Provision for losses									
– continuing operations	10	(8)	2	3	110	(9)	1	36	(7)
Provision for losses									
– discontinued operations	–	–	–	–	3	–	–	3	–
Write-offs, net of recoveries	(3)	(39)	(6)	(11)	(57)	11	(38)	(10)	2
Currency translation adjustment	2	5	–	1	2	–	(2)	(3)	–
Dispositions	(5)	–	(1)	(30)	–	–	–	–	–
Balance, December 31	$ 60	$ 66	$ 5	$ 56	$ 108	$ 10	$ 93	$ 50	$ 8

At December 31, 2001, the carrying value of bonds, mortgages and real estate, including any specific allowances, which were non-income producing for the preceding twelve months was $207.

MORTGAGES

At December 31, 2001 and 2000, mortgages with scheduled payments which were 90 days or more in arrears were $32 (0.4% of total mortgages) and $44 (0.4% of total mortgages), respectively, before any allowances.

During 2001 and 2000, the Company's weighted average recorded investment in impaired mortgage loans, before any allowances, was $45 and $69, respectively. Interest on impaired mortgage loans is recorded as received and was $3 for 2001 and $5 for 2000. Impaired mortgage loans with no allowance for losses are loans for which, at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value.

16. Other Assets

Other assets consist of the following:

	2001	2000
Goodwill	$ 2,080	$ 91
Deferred acquisition costs	1,162	1,212
Future income taxes (Note 30)	968	334
Accounts receivable	824	842
Investment income due and accrued	890	628
Prepaid expenses	457	404
Outstanding premiums	242	238
Capital assets	204	183
Other	237	77
Total other assets	$ 7,064	$ 4,009

Amortization of deferred acquisition costs charged to income amounted to $305 in 2001 ($265 and $235 in 2000 and 1999, respectively).

In addition to the goodwill amount included in other assets, goodwill of $123 ($139 in 2000) for investments accounted for by the equity method is included in other invested assets. Goodwill amortization charged to net investment income and operating expenses during the year was $9 and $10, respectively ($10 and $8, respectively in 2000 and $8 and $9, respectively in 1999).

Capital assets are carried at a cost of $724 ($698 in 2000), less accumulated depreciation and amortization of $520 ($515 in 2000). Depreciation and amortization charged to income totalled $66 ($59 and $63 in 2000 and 1999, respectively).

17. Actuarial Liabilities and Other Policy Liabilities

COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

The actuarial liabilities and other policy liabilities consist of the following:

	2001					
	Canada	United States	United Kingdom	Asia	Other Operations	Total
Individual participating life	$ 3,334	$ 5,528	$ 3,553	$ 750	$ 78	$ 13,243
Individual non-participating life	521	5,366	299	(4)	68	6,250
Group life	709	192	463	1	–	1,365
Individual annuities	3,263	16,950	2,391	–	–	22,604
Group annuities	3,056	8,355	327	–	–	11,738
Health insurance	2,591	471	393	(5)	161	3,611
	13,474	36,862	7,426	742	307	58,811
Less: reinsurance ceded	763	89	54	2	45	953
Total actuarial liabilities	12,711	36,773	7,372	740	262	57,858
Add: other policy liabilities	271	523	373	73	429	1,669
Actuarial liabilities and other policy liabilities	$ 12,982	$ 37,296	$ 7,745	$ 813	$ 691	$ 59,527

	2000*					
	Canada	United States	United Kingdom	Asia	Other Operations	Total
Individual participating life	$ 2,994	$ 4,848	$ 3,415	$ 584	$ 77	$ 11,918
Individual non-participating life	439	2,028	238	(3)	128	2,830
Group life	650	102	408	1	–	1,161
Individual annuities	3,283	391	2,208	–	8	5,890
Group annuities	3,116	5,105	304	–	–	8,525
Health insurance	2,376	411	336	(3)	291	3,411
	12,858	12,885	6,909	579	504	33,735
Less: reinsurance ceded	694	121	56	1	85	957
Total actuarial liabilities	12,164	12,764	6,853	578	419	32,778
Add: other policy liabilities	325	381	429	65	432	1,632
Actuarial liabilities and other policy liabilities	$ 12,489	$ 13,145	$ 7,282	$ 643	$ 851	$ 34,410

* As restated *(Note 3)*

In the above tables, the other operations are primarily business from the discontinued reinsurance operations. Other policy liabilities consist of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends and provisions for experience rating refunds.

Policyholder dividends of $737 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($787 and $819 in 2000 and 1999, respectively).

Provisions for adverse deviations from expected assumptions have been included in the actuarial liabilities to recognize the measurement uncertainty inherent in the computation process. In determining these provisions, the Company ensures:

- When taken one at a time, each provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption.
- In total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities.

These provisions will be reduced and included in future income to the extent that they are no longer required. For group insurance, reductions in provisions may be returned to policyholders as experience rating refunds.

CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2001	2000*
Actuarial liabilities, January 1	$ 33,390	$ 32,370
Restatement and reclassification due to the change in accounting policy	(612)	(322)
Actuarial liabilities, January 1 as restated	32,778	32,048
Change in liabilities on in-force business	(163)	(2,151)
Liabilities arising from new policies	1,823	3,755
Increase in actuarial liabilities	1,660	1,604
Acquisition	22,554	–
Dispositions and other	(174)	(394)
Change due to ceding reinsurance agreement	(17)	(539)
Effect of changes in currency exchange rates	1,057	59
Actuarial liabilities, December 31	$ 57,858	$ 32,778

* As restated *(Note 3)*

MEASUREMENT UNCERTAINTY AND ASSUMPTIONS MOST SUSCEPTIBLE TO CHANGE

The Company uses best estimate assumptions for expected future experience in calculating actuarial liabilities. An additional margin is then added to provide for possible adverse deviations from the best estimates. The best estimate assumptions and provisions for adverse deviations

are reviewed annually. Revisions are made to either the best estimate assumptions and/or the margins, where deemed necessary and prudent. Due to the long-term nature of the policy liabilities, the time spans of the assumptions are usually longer than a single year. Accordingly, the assumptions are expected to change slowly over time. The actuarial policies addressing measurement uncertainty are further discussed in Note 2.

Mortality and morbidity: These assumptions are set based on average experience over the last five years or industry tables as specified in Note 2. The susceptibility to yearly change is therefore low.

Lapse rates: For individual life insurance products where fewer lapses would be financially adverse to the Company, actuarial liabilities would be increased by 0.2% if the lapse rate assumption was reduced by 10% starting in policy year six (5% for participating policies and policies with adjustable premiums). For products where more lapses would be financially adverse to the Company, actuarial liabilities would be increased by 1.2% if an extra 1% of the in-force policies were assumed to lapse each year beginning in policy year six (0.5% for participating policies and policies with adjustable premiums).

Expenses: The sensitivity of actuarial liabilities to changes in expense assumptions is relatively low. For example, in the case of Canadian individual participating policies, a 25% increase in unit expenses per policy would result in an increase in actuarial liabilities of less than 5%, assuming no dividend scale changes.

Asset default: In addition to the allowances for losses on invested assets outlined in Note 15, the actuarial liabilities include an amount of $943 determined on a pre-tax basis ($635 in 2000) to provide for possible future asset defaults on currently owned assets. This provision results from a reduction in the expected future investment yield recognized in the computation of actuarial liabilities. The reduction varies depending on the creditworthiness of the class of asset.

Interest rate: The effect of changes in interest rates on actuarial liabilities is discussed in Note 13.

INVESTED ASSETS SUPPORTING ACTUARIAL LIABILITIES, EQUITY AND OTHER

Bonds and mortgages are used extensively to support actuarial liabilities, particularly in the annuity and group businesses. Stocks and real estate are primarily used to support individual participating life insurance business where the Company has some ability to adjust policyholder dividends. Equity and other includes both insurance and non-insurance operations of the Company. The following tables show the percentage of invested assets supporting actuarial liabilities, equity and other:

	2001					
	Bonds %	Mortgages %	Stocks %	Real Estate %	Other %	Total %
Individual participating life	44	15	21	10	10	100
Individual non-participating life	69	13	2	–	16	100
Group life	68	17	2	1	12	100
Individual annuities	77	9	1	–	13	100
Group annuities	80	13	1	2	4	100
Health insurance	73	19	1	1	6	100
Equity and other	53	5	9	4	29	100
Total invested assets	65	12	7	3	13	100

	2000*					
	Bonds %	Mortgages %	Stocks %	Real Estate %	Other %	Total %
Individual participating life	43	14	23	11	9	100
Individual non-participating life	56	26	5	1	12	100
Group life	67	18	2	1	12	100
Individual annuities	60	27	1	–	12	100
Group annuities	78	19	1	2	–	100
Health insurance	70	22	1	1	6	100
Equity and other	32	25	8	3	32	100
Total invested assets	54	20	9	5	12	100

* As restated *(Note 3)*

18. Reinsurance Agreements

Reinsurance is used to limit exposure to large losses. The Board approves the Company's individual life insurance retention policy and limits which require that such arrangements be placed with well-established, highly rated reinsurers. Coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties. Actuarial liabilities are shown net of ceded reinsurance in Note 17. While reinsurance arrangements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders. The reductions in premiums and payments to policyholders, beneficiaries and depositors due to reinsurance ceded are $439 ($271 in 2000 and $267 in 1999) and $235 ($202 in 2000 and $146 in 1999), respectively.

19. Other Liabilities

Other liabilities consist of the following:

	2001	2000
Accrued expenses and taxes	$ 1,163	$ 1,442
Accounts payable	1,967	1,534
Selling practice provisions (Note 32)	371	561
Borrowed funds (Note 20)	310	401
Future income taxes (Note 30)	329	325
Other	521	514
Total other liabilities	$ 4,661	$ 4,777

20. Borrowed Funds

The following obligations are included in borrowed funds:

	Currency of Borrowing	Maturity	2001	2000
Bank credit facilities[1]	U.S. dollars	2004	$ 239	$ 150
	Pounds Sterling	2001	–	190
Encumbrances on real estate	Canadian dollars	2003–2007	29	30
	U.S. dollars	2007–2019	42	31
Total borrowed funds			$ 310	$ 401

[1] At various floating rates, linked to London Inter Bank Offered Rate.

Interest expense for the borrowed funds was $30, $25 and $25 for 2001, 2000 and 1999, respectively.

At December 31, 2001, aggregate maturities, including principal repayments, of encumbrances on real estate are $3 for 2002, $25 for 2003, $2 for 2004, $2 for 2005, $5 for 2006 and $18 for 2007.

At December 31, 2001, bank credit facilities are $239 ($340 in 2000) with weighted average interest rates related to those borrowings ranging from 5.3% to 6.1% (6.2% to 6.7% in 2000). The U.S. dollar bank credit facility is secured by the future distribution fee stream of the mutual funds under the management of Massachusetts Financial Services Company (M.F.S.).

At December 31, 2001, the Company had $1,352 in lines of credit from numerous financial institutions of which $1,113 was unused. These lines of credit generally have terms ranging from 1 to 4 years.

21. Subordinated Debt

The following obligations are included in subordinated debt:

	Maturity	2001	2000
Amounts borrowed in Canadian dollars:			
8.49% capital debentures	2005	$ 300	$ 300
Amounts borrowed in U.S. dollars:			
6.63% subordinated notes	2007	238	224
7.25% subordinated notes	2015	238	225
Total subordinated debt		$ 776	$ 749

Interest expense on subordinated debt borrowings was $59, $58 and $60 for 2001, 2000 and 1999, respectively.

This subordinated debt qualifies as capital for Canadian regulatory purposes.

In 2001, the Company notified the debenture holders of its intention to repay the 8.49% capital debentures. The prepayment premiums of the debentures in the amount of $30, net of taxes of $7, were recorded.

22. Cumulative Capital Securities of a Subsidiary

On May 6, 1997, Sun Life of Canada (U.S.) Capital Trust I, a Delaware statutory business trust of the Company, issued U.S.$600 of 8.526% cumulative capital securities (Securities). These Securities were issued in U.S. dollars and have no scheduled maturity date. Distributions are payable semi-annually in arrears. The payment of distributions is indirectly guaranteed by Sun Life Assurance Company of Canada on a subordinated basis. These cumulative capital securities qualify as capital for Canadian regulatory purposes.

23. Non-controlling Interests in Subsidiaries

On October 19, 2001, Sun Life Capital Trust (Trust), a controlled trust of Sun Life Assurance Company of Canada, issued $950 of non-voting Sun Life ExchangEable Capital Securities – Series A (SLEECS) which qualify as capital for Canadian regulatory purposes. Holders of the SLEECS will be entitled to receive a semi-annual non-cumulative fixed cash distribution of $34.325 per SLEECS, representing an annual yield of 6.865% of the one thousand dollars initial issue price, payable out of the Trust's net distributable funds. If Sun Life Assurance Company of Canada has not declared dividends on its Class B Non-cumulative Preferred Shares Series A or on any of its preferred shares listed on a stock exchange, cash distributions will not be made on the SLEECS. Subject to regulatory approval, the Trust may redeem the SLEECS at any time after the fifth anniversary of the date of issuance and, in certain limited circumstances, may also redeem the SLEECS during the first five years. The holders of the SLEECS will have the right at any time to surrender each one thousand dollars face amount of SLEECS and to receive from the Trust in exchange 40 Class A Non-cumulative Preferred Shares Series Z of Sun Life Assurance Company of Canada, subject to compliance with the Declaration of Trust. Proceeds of issuing the SLEECS were used to finance in part the acquisition of Keyport and IFMG.

Pursuant to the Share Exchange Agreement, Sun Life Financial Services of Canada Inc. and Sun Life Assurance Company of Canada agreed that if the Trust fails to pay on any regular distribution date the required cash distributions on the SLEECS in full, Sun Life Assurance Company of Canada will not pay dividends on its public preferred shares. If there are no public preferred shares of Sun Life Assurance Company of Canada outstanding, Sun Life Financial Services of Canada Inc. will not pay dividends on any of its preferred and common shares. As at December 31, 2001, Sun Life Assurance Company of Canada did not have any public preferred shares outstanding.

Non-controlling interests in the consolidated balance sheets consist of the following:

	2001	2000
SLEECS issued by the Trust	$ 950	$ –
Non-controlling interests in M.F.S. and McLean Budden Limited	93	68
Total non-controlling interests in subsidiaries	$ 1,043	$ 68

Non-controlling interests in net income of subsidiaries include non-controlling interests in the Trust of $7 and M.F.S. and McLean Budden Limited of $61 ($67 in 2000 and $46 in 1999).

24. Share Capital and Normal Course Issuer Bid

The authorized share capital of Sun Life Financial Services of Canada Inc. consists of the following:

- An unlimited number of common shares without nominal or par value. Each common share is entitled to one vote at meetings of the shareholders of Sun Life Financial Services of Canada Inc. There are no pre-emptive, redemption, purchase or conversion rights attached to the common shares.
- An unlimited number of Class A and Class B non-voting preferred shares, issuable in series. The Board is authorized to fix before issuing the shares, the number, the consideration per share, the designation of and the rights and restrictions of the Class A and Class B shares of each series, subject to the special rights and restrictions attached to all the Class A and Class B shares.

On October 4, 2001, Sun Life Financial Services of Canada Inc. issued 11 million common shares at $30 per share for $330. Underwriting commissions and offering costs of issuing the common shares amounted to $23 and were deducted from the share capital of Sun Life Financial Services of Canada Inc. Proceeds of issuing the common shares were used to finance in part the acquisition of Keyport and IFMG.

On May 11, 2000, the Company announced that the Board had authorized the purchase of up to 21 million common shares, representing 5% of the common shares issued and outstanding at that time. The purchases were made under a normal course issuer bid program in accordance with the rules of The Toronto Stock Exchange (Exchange). The normal course issuer bid program covered the period from May 15, 2000 to May 14, 2001. Regulatory approval for the normal course issuer bid program was received on May 16, 2000. Transactions were executed on the Exchange at the prevailing market price in amounts and times determined by the Company. The Company made no purchases of common shares other than open-market purchases. The common shares purchased as part of the normal course issuer bid program were cancelled. As at December 31, 2001, the Company had purchased and cancelled approximately one million of its common shares at an average price of $32 per share for a total amount of $35.

The changes and the number of shares issued and outstanding are as follows:

	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Common shares (in millions of shares)				
Balance, January 1	422	$ 795	–	$ –
Shares issued to policyholders at demutualization (Note 7)	–	–	354	–
Shares issued in public offerings (Note 7)	11	330	46	576
Shares issued under an over-allotment option at demutualization (Note 7)	–	–	22	268
Purchase and cancellation of common shares	(1)	(2)	–	–
Commissions and offering costs, net of taxes (Note 7)		(23)		(49)
Balance, December 31	432	$ 1,100	422	$ 795

25. Earnings Per Share

BASIC, ADJUSTED AND DILUTED EARNINGS PER SHARE

	For the years ended 2001	2000	For the period from March 22 to December 31, 2000
Net income available to shareholders	$ 882	$ 792[2]	$ 629
Less: effect of stock options of subsidiaries[1]	5		4
Net income available to shareholders on a diluted basis	$ 877		$ 625
Weighted average number of shares outstanding (in millions)	424	416	421
Add: options of Sun Life Financial Services of Canada Inc.[1]	–		–
Weighted average number of shares outstanding on a diluted basis (in millions)	424		421
Basic or adjusted[2] earnings per share	$ 2.08	$ 1.90[2]	$ 1.49
Diluted earnings per share	$ 2.07		$ 1.48

(1) The effect of stock options is calculated based on the treasury stock method requirements which assume that any proceeds from the exercise of the options would be used to purchase common shares at the average closing market prices during the year.

(2) Adjusted earnings per share is calculated as if demutualization occurred and the offering, excluding the underwriters' over-allotment, closed on January 1, 2000. Total net income of $802 from January 1 to December 31, 2000 was adjusted for the net income of $16 attributed to pre-demutualization participating policyholders and the net loss of $6 attributed to post-demutualization participating policyholders.

26. Minimum Capital Requirements

The Company is subject to the Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) on its worldwide insurance operations. At December 31, 2001, the Company had a MCCSR ratio of 190% (295% in 2000), which is in excess of the minimum requirement. In addition, foreign operations and foreign subsidiaries of the Company must comply with local capital requirements in each of the jurisdictions in which they operate. Furthermore, the Company is required to appropriate retained earnings of $2,163 ($1,888 in 2000). All of these requirements constrain the Company's ability to distribute its retained earnings.

27. Stock-based Compensation

On April 25, 2001, shareholders of Sun Life Financial Services of Canada Inc. approved the Executive Stock Option Plan, the Director Stock Option Plan and the Senior Executives' Deferred Share Unit Plan at the Annual and Special Meeting. Sun Life Financial Services of Canada Inc. granted stock options to certain employees and directors under the Executive Stock Option Plan and the Director Stock Option Plan and to all eligible employees under the Special 2001 Stock Option Award Plan. These options may be exercised at the closing price of the common shares on the Exchange on the trading day preceding the grant date. The options granted under the stock option plans will vest at various times: over a five-year period under the Executive Stock Option Plan, two years after the grant date under the Special 2001 Stock Option Award Plan and over a two-year period or immediately upon death or attainment of the mandatory age for retirement under the Director Stock Option Plan. All options have a maximum exercise period of 10 years. The maximum number of common shares that may be issued under the Executive Stock Option Plan, the Special 2001 Stock Option Award Plan and the Director Stock Option Plan are 29,525,000 shares, 1,150,000 shares and 150,000 shares, respectively. The Company follows the intrinsic value method of accounting for the stock options. Since the exercise price is set at the closing price of the common shares on the trading day preceding the grant date, no compensation expense is recognized on the grant date. When options are exercised, the proceeds received by the Company are credited to common stock in the consolidated statements of equity.

The activity in the stock option plans was as follows:

	2001		
	Weighted average remaining contractual life (years)	Number of stock options	Weighted average exercise price
Granted		5,710,800	$ 29.86
Forfeited		165,800	29.60
Balance, December 31 (exercise prices: $29.49 to $38.50)	9.3	5,545,000	$ 29.87
Exercisable, December 31		2,000	$ 31.00

Effective October 1, 2001, the Company began matching employees' contributions to the Sun Life Financial Employee Stock Plan (Plan). Eligible employees in Canada may contribute from 1% to 20% of their base earnings to the Plan. The Company matches 50% of the lower of the employee contributions and 5% of the employee's base earnings to an annual maximum of one thousand five hundred dollars. The Company's contributions vest immediately and are expensed.

28. Net Investment Income

Net investment income has the following components:

	2001	2000	1999
Interest from:			
Bonds	$ 2,248	$ 1,974	$ 1,878
Mortgages	852	860	987
Policy loans	119	102	98
Cash, cash equivalents and short-term securities	116	146	101
Interest income	3,335	3,082	3,064
Dividends from stocks	95	103	139
Real estate income (net)	192	182	196
Amortization of deferred net realized gains (Note 10)	517	534	468
Amortization of unrealized gains and losses	(66)	14	152
Other items (net)	154	93	257
	4,227	4,008	4,276
Provisions for losses on investments	(4)	(107)	(33)
Investment expenses and taxes	(61)	(62)	(61)
Impact of discontinued operations	(42)	(63)	(69)
Total net investment income	$ 4,120	$ 3,776	$ 4,113

29. Operating Expenses

Operating expenses consist of the following:

	2001	2000	1999
Compensation costs	$ 1,527	$ 1,444	$ 1,366
Premise and equipment costs	263	267	276
Capital asset depreciation and amortization (Note 16)	66	59	63
Goodwill amortization (Note 16)	10	8	9
Other	645	655	526
Total operating expenses	$ 2,511	$ 2,433	$ 2,240

30. Income Taxes

In the consolidated statements of operations, the income tax expense for the Company's worldwide operations has the following components:

	2001	2000	1999
CONTINUING OPERATIONS			
Canadian income tax expense (benefit):			
Current	$ 23	[illegible]	[illegible]
Future	113	72	107
Total	136	148	141
Foreign income tax expense (benefit):			
Current	236	221	305
Future	(71)	10	(28)
Total	165	231	277
Income tax expense related to continuing operations	301	379	418
DISCONTINUED OPERATIONS			
Canadian income tax expense (benefit):			
Current	–	–	2
Future	–	3	1
Total	–	3	3
Foreign income tax expense (benefit):			
Current	–	(31)	(16)
Future	5	35	(79)
Total	5	4	(95)
Income tax expense (benefit) related to discontinued operations	5	7	(92)
Total income taxes	$ 306	$ 386	$ 326

The undistributed earnings of most non-Canadian subsidiaries would be taxed only upon their repatriation to Canada. The Company recognizes a future tax liability, if any, on these undistributed earnings to the extent that management expects they will be repatriated in the foreseeable future. As repatriation of such earnings is not currently planned, the Company has not recognized the future tax liability. If the undistributed earnings of all non-Canadian subsidiaries were repatriated, additional taxes that would be payable are estimated to be $33 as at December 31, 2001 ($17 and $16 in 2000 and 1999, respectively).

The Company's effective worldwide income tax rate differs from the combined Canadian federal and provincial statutory income tax rate, as follows:

	2001		2000		1999	
		%		%		%
Net income from continuing operations	$ 881		$ 802		$ 334	
Add: income taxes	301		379		418	
non-controlling interests in net income of subsidiaries	68		67		46	
Net income from continuing operations before income taxes and non-controlling interests in net income of subsidiaries	$ 1,250		$ 1,248		$ 798	
Taxes at the combined Canadian federal and provincial statutory income tax rate	$ 518	41.4	$ 539	43.2	$ 348	43.6
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	(196)	(15.6)	(150)	(12.0)	(80)	(10.0)
Tax (benefit) cost of unrecognized losses	(23)	(1.8)	–	–	158	19.8
Tax exempt investment income	(39)	(3.1)	(52)	(4.1)	(23)	(2.9)
Capital taxes	6	0.5	9	0.7	8	1.0
Statutory income tax rate reduction	6	0.5	27	2.1	–	–
Other	29	2.2	6	0.5	7	0.9
Company's effective worldwide income taxes	$ 301	24.1	$ 379	30.4	$ 418	52.4

The Company has accumulated net tax losses, primarily in the United Kingdom, totalling $2,069 ($2,798 in 2000). The future benefit of these tax losses has been recognized to the extent that they are more likely than not to be realized in the amount of $127 ($257 in 2000) in future income taxes. The Company will realize this benefit in future years through a reduction in current income taxes. These net tax losses are included in income tax returns that are subject to examination by various tax authorities and could be reduced as a result of adjustments to tax returns for prior years.

The Company's future tax assets and liabilities arise from the following temporary differences for all operations:

	2001		2000	
	Assets	Liabilities	Assets	Liabilities
Investments	$ 115	$ 74	$ 190	$ 17
Actuarial liabilities	364	197	(217)	54
Deferred acquisition costs	324	123	135	282
Operating losses available for carry forward	66	(560)	185	(684)
Other	117	7	42	45
	986	(159)	335	(286)
Valuation allowance	(18)	488	(1)	611
Total	$ 968	$ 329	$ 334	$ 325

Future income taxes are the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the recognized tax effects for continuing operations are as follows:

	2001	2000	1999
Investments	$ 68	$ (111)	$ (137)
Actuarial liabilities	17	71	(211)
Deferred acquisition costs	(187)	(2)	39
Operating losses utilized	158	75	356
Other	(14)	49	32
Future income tax expense related to continuing operations	$ 42	$ 82	$ 79

31. Segmented Information

The Company's reportable segments are determined by the Company's management structure and internal financial reporting. Each of these segments has its own management. All of these segments operate in the financial services industry. They derive their revenues principally from wealth management operations (mutual funds, investment management, annuities, trust operations and banking) and protection services (life and health insurance). Corporate and other represents amounts not attributed to wealth management and protection. It primarily includes investments of a corporate nature and earnings on capital not attributed to the strategic business units.

Other operations include those operations for which management responsibility resides in head office. As the Company's reinsurance operations are treated as a discontinued operation, net income (loss) from continuing operations does not include these results. However the Company's reinsurance operations are included in other operations' assets. Net income (loss) from continuing operations in this category is shown net of certain expenses borne centrally.

The revenue by major product category includes premiums, net investment income (which is detailed in Note 28) and fee income. Inter-segment revenue consists of interest of $140 in 2001 ($141 in 2000 and $81 in 1999) and fee income of $48 in 2001 ($33 in 2000 and $26 in 1999). The major non-cash item is the change in actuarial liabilities which is separately disclosed.

Transactions occurring between segments consist primarily of internal financing agreements. Inter-segment transactions are measured at market values prevailing when the arrangements were negotiated.

The results of the segments' operations are discussed in the Management's Discussion and Analysis.

Results by segment for the years ended December 31	Canada	United States Sun Life	United States M.F.S.	United Kingdom	Asia	Other	Consolidation Adjustments	Total
2001								
REVENUE								
Wealth management	$ 1,314	$ 4,672	$ 2,273	$ 789	$ 1	$ 10	$ (26)	$ 9,033
Protection	2,515	3,077	–	1,270	463	11	–	7,336
Corporate and other	26	62	–	8	–	386	(162)	320
Total revenue	$ 3,855	$ 7,811	$ 2,273	$ 2,067	$ 464	$ 407	$ (188)	$ 16,689
Change in actuarial liabilities	$ 552	$ 675	$ –	$ 298	$ 136	$ (1)	$ –	$ 1,660
Interest on claims and deposits	$ 47	$ 21	$ –	$ 121	$ 28	$ –	$ –	$ 217
Interest expenses	$ 36	$ 69	$ 31	$ 31	$ –	$ 141	$ (140)	$ 168
Income taxes	$ 106	$ 25	$ 144	$ (7)	$ 5	$ 28	$ –	$ 301
NET INCOME (LOSS) FROM CONTINUING OPERATIONS								
Wealth management	$ 83	$ 64	$ 231	$ 157	$ (2)	$ 9	$ (29)	$ 513
Protection	115	151	–	118	22	–	–	406
Corporate and other	9	11	–	(95)	–	8	29	(38)
Net income (loss) from continuing operations	$ 207	$ 226	$ 231	$ 180	$ 20	$ 17	$ –	$ 881
2000								
REVENUE								
Wealth management	$ 1,501	$ 4,406	$ 2,382	$ 855	$ (1)	$ 10	$ (33)	$ 9,120
Protection	2,437	2,680	–	1,405	414	15	–	6,951
Corporate and other	8	73	–	–	–	195	(141)	135
Total revenue	$ 3,946	$ 7,159	$ 2,382	$ 2,260	$ 413	$ 220	$ (174)	$ 16,206
Change in actuarial liabilities	$ 245	$ 894	$ –	$ 349	$ 115	$ 1	$ –	$ 1,604
Interest on claims and deposits	$ 69	$ 17	$ –	$ 125	$ 27	$ –	$ –	$ 238
Interest expenses	$ 34	$ 64	$ 29	$ 37	$ –	$ 136	$ (141)	$ 159
Income taxes	$ 131	$ 28	$ 176	$ 24	$ 12	$ 8	$ –	$ 379
NET INCOME (LOSS) FROM CONTINUING OPERATIONS								
Wealth management	$ 69	$ 73	$ 256	$ 107	$ (13)	$ 8	$ (31)	$ 469
Protection	127	99	–	62	40	2	–	330
Corporate and other	(1)	56	–	(50)	–	(33)	31	3
Net income (loss) from continuing operations	$ 195	$ 228	$ 256	$ 119	$ 27	$ (23)	$ –	$ 802
1999								
REVENUE								
Wealth management	$ 1,571	$ 3,270	$ 1,822	$ 1,082	$ –	$ 7	$ (26)	$ 7,726
Protection	2,343	2,485	–	1,538	401	4	–	6,771
Corporate and other	47	80	–	33	–	165	(81)	244
Total revenue	$ 3,961	$ 5,835	$ 1,822	$ 2,653	$ 401	$ 176	$ (107)	$ 14,741
Change in actuarial liabilities	$ 293	$ (166)	$ –	$ 635	$ 110	$ 2	$ –	$ 874
Interest on claims and deposits	$ 156	$ 34	$ –	$ 110	$ 25	$ –	$ –	$ 325
Interest expenses	$ –	$ 64	$ 29	$ 11	$ –	$ 138	$ (81)	$ 161
Income taxes	$ 151	$ 56	$ 147	$ 45	$ 11	$ 8	$ –	$ 418
NET INCOME (LOSS) FROM CONTINUING OPERATIONS								
Wealth management	$ 75	$ 61	$ 187	$ (333)	$ (2)	$ 6	$ (25)	$ (31)
Protection	114	148	–	14	40	1	–	317
Corporate and other	31	27	–	22	–	(57)	25	48
Net income (loss) from continuing operations	$ 220	$ 236	$ 187	$ (297)	$ 38	$ (50)	$ –	$ 334

Assets by segment as at December 31	Canada	United States Sun Life	United States M.F.S.	United Kingdom	Asia	Other	Consolidation Adjustments	Total
2001								
GENERAL FUND ASSETS								
Wealth management	$ 7,486	$ 33,749	$ 1,762	$ 4,285	$ 45	$ 161	$ (2)	$ 47,486
Protection	9,609	10,914	–	7,015	1,785	94	–	29,417
Corporate and other	612	275	–	938	–	2,141	(541)	3,425
Total	$ 17,707	$ 44,938	$ 1,762	$ 12,238	$ 1,830	$ 2,396	$ (543)	$ 80,328
SEGREGATED FUNDS NET ASSETS								
Wealth management	$ 8,706	$ 29,473	$ –	$ 6,619	$ –	$ –	$ –	$ 44,798
Protection	–	2,273	–	1,472	1	–	–	3,746
Corporate and other	–	–	–	–	–	–	–	–
Total	$ 8,706	$ 31,746	$ –	$ 8,091	$ 1	$ –	$ –	$ 48,544
OTHER ASSETS UNDER MANAGEMENT								
Wealth management	$ 26,092	$ 1,833	$218,401	$ –	$ 21	$ –	$(23,472)	$222,875
Protection	–	–	–	–	–	–	–	–
Corporate and other	–	–	–	–	–	–	–	–
Total	$ 26,092	$ 1,833	$218,401	$ –	$ 21	$ –	$(23,472)	$222,875
2000*								
GENERAL FUND ASSETS								
Wealth management	$ 7,624	$ 7,261	$ 1,787	$ 6,793	$ 35	$ 159	$ (5)	$ 23,654
Protection	9,381	9,157	–	6,940	1,430	100	–	27,008
Corporate and other	654	372	–	384	–	3,211	(273)	4,348
Total	$ 17,659	$ 16,790	$ 1,787	$ 14,117	$ 1,465	$ 3,470	$ (278)	$ 55,010
SEGREGATED FUNDS NET ASSETS								
Wealth management	$ 8,720	$ 27,343	$ –	$ 10,133	$ –	$ –	$ –	$ 46,196
Protection	–	1,579	–	1,758	–	–	–	3,337
Corporate and other	–	–	–	–	–	–	–	–
Total	$ 8,720	$ 28,922	$ –	$ 11,891	$ –	$ –	$ –	$ 49,533
OTHER ASSETS UNDER MANAGEMENT								
Wealth management	$ 24,153	$ 1,588	$221,045	$ 3,653	$ 7	$ –	$(26,456)	$223,990
Protection	–	–	–	–	–	–	–	–
Corporate and other	–	–	–	–	–	–	–	
Total	$ 24,153	$ 1,588	$221,045	$ 3,653	$ 7	$ –	$(26,456)	$223,990
1999*								
GENERAL FUND ASSETS								
Wealth management	$ 9,584	$ 6,262	$ 1,486	$ 6,684	$ 39	$ 156	$ (2)	$ 24,209
Protection	8,895	8,111	–	6,798	1,309	36	–	25,149
Corporate and other	801	991	–	397	–	2,786	(92)	4,883
Total	$ 19,280	$ 15,364	$ 1,486	$ 13,879	$ 1,348	$ 2,978	$ (94)	$ 54,241
SEGREGATED FUNDS NET ASSETS								
Wealth management	$ 8,183	$ 24,641	$ –	$ 11,378	$ –	$ –	$ –	$ 44,202
Protection	–	202	–	2,120	–	–	–	2,322
Corporate and other	–	–	–	–	–	–	–	
Total	$ 8,183	$ 24,843	$ –	$ 13,498	$ –	$ –	$ –	$ 46,524
OTHER ASSETS UNDER MANAGEMENT								
Wealth management	$ 21,889	$ 723	$198,908	$ 3,899	$ –	$ –	$(24,881)	$200,538
Protection	–	–	–	–	–	–	–	–
Corporate and other	–	–	–	–	–	–	–	–
Total	$ 21,889	$ 723	$198,908	$ 3,899	$ –	$ –	$(24,881)	$200,538

* As restated *(Note 3)*

The following table shows revenue, net income from continuing operations and assets by territory for the Company's other operations:

	2001	2000	1999
Revenue:			
Corporate and other			
United States	$ 134	$ 119	$ 162
Other countries	252	76	3
	386	195	165
Wealth management and protection			
Other countries	21	25	11
Total revenue	$ 407	$ 220	$ 176
Net income (loss) from continuing operations:			
Corporate and other			
United States	$ 6	$ (11)	$ 6
Other countries	2	(22)	(63)
	8	(33)	(57)
Wealth management and protection			
Other countries	9	10	7
Total net income (loss) from continuing operations	$ 17	$ (23)	$ (50)
Assets:			
General funds:			
Corporate and other			
United States	$ 1,656	$ 2,337	$ 2,178
Other countries	485	874	608
	2,141	3,211	2,786
Wealth management and protection			
Other countries	255	259	192
Total assets	$ 2,396	$ 3,470	$ 2,978

32. Commitments and Contingencies

LEASE COMMITMENTS

The Company leases offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Total future rental payments for the remainder of these leases are $98 for 2002, $96 for 2003, $96 for 2004, $94 for 2005, $84 for 2006 and $152 thereafter.

CONTRACTUAL COMMITMENTS

In the normal course of business, various contractual commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2001, there were outstanding contractual commitments of $369, of which $186 expires in 30 days, $124 expires in 31 to 365 days and $59 expires in 2003 or later. The majority of these commitments are to extend credit under commercial and residential mortgage loans.

LETTERS OF CREDIT

The Company issues letters of credit in the normal course of business. At December 31, 2001, letters of credit in the amount of $1 have been issued.

UNICOVER

The Company is engaged in arbitration proceedings in the United States with Cragwood Managers, LLC (formerly Unicover Managers, Inc.) and the members of the Unicover reinsurance pool. The Company is seeking rescission of, or damages in respect of, certain contracts of reinsurance of accident and health insurance components of workers' compensation insurance policies written by U.S. insurers. The amounts involved are substantial.

The Company is also engaged in arbitration proceedings in the United States and in England with three of the companies that have contracts to provide reinsurance to the Company. Those contracts would provide coverage for Unicover-related claims (as well as non-Unicover claims). Those companies are disputing their obligation to provide coverage to the Company under their respective contracts of reinsurance. Other reinsurers of the Company may institute similar proceedings.

Based on its investigation of the facts currently available and on the advice of counsel, the Company believes that it has strong grounds on which to rescind the contracts with the Unicover pool members. However, the arbitration proceedings may be lengthy and the outcome of the arbitration proceedings is uncertain. The final liabilities of the Company in respect of Unicover-related claims are not expected to have a material adverse effect on the consolidated financial position of the Company regardless of the outcome of these arbitration proceedings.

The Company established provisions of $150 after taxes during 1999 in connection with the Unicover business based on information known to it at the time. The financial terms of certain settlements that the Company has entered into to date in connection with Unicover-related claims are consistent with these provisions. No additional provisions were established during 2001.

LEGAL PROCEEDINGS

Sun Life Financial is engaged in litigation arising in the ordinary course of business. None of this litigation is expected to have a material adverse effect on the consolidated financial position of the Company other than those mentioned elsewhere in this note.

PROVISIONS IN THE UNITED KINGDOM

In the United Kingdom, the life insurance industry is being required to compensate certain policyholders under the Financial Services Authority guidelines on sales of pension products. The compensation is for sales which occurred from 1988 to 1994. These guidelines have been significantly expanded for the second phase of required compensation, which has required the entire industry to significantly increase its provisions. The Financial Services Authority is continuing to provide more specific guidance for this compensation. The liability has been determined by the use of estimates derived from the regulatory guidance or the Company's prior experience. The Company's future experience may be different from these estimates and consequently there is still uncertainty in measuring its ultimate costs. There was no increase in the provisions during the year (no increase in 2000 and an increase of $438 included in the maturities and surrenders line in the consolidated statements of operations in 1999), for a total cost since inception of $1,176. During the year, the Company paid compensation of $168 ($127 and $158 in 2000 and 1999, respectively), for total compensation payments since inception of $680. At December 31, 2001, the Company had provisions of $371 ($561 in 2000) for future compensation payments and related expenses.

In 1998, the Company significantly increased its actuarial liabilities in connection with certain annuities with minimum annuity rates issued prior to 1994 by Confederation Life (U.K.) in the United Kingdom. At December 31, 2001, the actuarial liabilities for these annuities were $255 ($221 as at December 31, 2000, as restated due to the adoption of the Canadian asset liability method). The Company has instituted a hedging program with the objective of limiting losses that would otherwise arise upon further declines in interest rates in the United Kingdom. This program provides a substantial, although not complete, hedge against declines in interest rates. There can be no certainty that additional liabilities will not be required in the future as a result of interest rate changes or other factors.

33. Loans Securitization

On July 1, 2001, the Company sold commercial mortgages with a carrying value of $265 to a trust which subsequently issued securities backed by the commercial mortgages. The Company was retained to service and administer the mortgages and also retained a subordinated investment in the issued securities. This transaction resulted in a gain of approximately $4 before taxes which was included in deferred net realized gains. In determining the gain on sale of the commercial mortgages, the carrying value of the mortgages sold was allocated between the portion sold and the portion retained based on their relative fair values on the date of sale. These fair values were based on the quoted market prices from an independent source.

As at December 31, 2001, the key assumptions of the discounted cash flows models and the sensitivity of the fair values of the retained interests to an immediate 10% and 20% adverse change in key assumptions are as follows:

	2001	
	Mortgages	Bonds
Carrying value of retained interests ($83 and $26 in 2000, respectively)	$ 95	$ 27
Fair value of retained interests ($68 and $26 in 2000, respectively)	$ 86	$ 27
Weighted-average remaining life (in years)	3.9–10.5	10.7
Discount rate	6.8–7.9%	12.5%
Impact on fair value of 10% adverse change	$ 3	$ 2
Impact on fair value of 20% adverse change	$ 6	$ 4
Anticipated credit losses	0.0%	0.4%
Impact on fair value of 10% adverse change		$ 1
Impact on fair value of 20% adverse change		$ 1

The sensitivity analysis in the table above is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The Company did not incur any credit losses on the securitized mortgage and bond portfolios in 2001. As at December 31, 2001, none of the securitized mortgage and bond portfolios were 90 days or more past due.

The following table summarizes certain cash flows received from securitization trusts in 2001 and 2000:

	2001		2000	
	Mortgages	Bonds	Mortgages	Bonds
Proceeds from new securitizations	$ 269	$ –	$ 282	$ 648
Cash flows received on retained interests and servicing fees	$ 9	$ 4	$ 7	$ –

34. Derivative Financial Instruments

The Company uses derivative instruments to manage risks associated with currency, interest rate and stock market fluctuations. The main focus of the Company's derivative management is on using:

- interest rate swaps, financial futures and options to manage its exposure to interest rate fluctuations associated with interest-sensitive portfolios;
- forward contracts and currency swaps to reduce exposure to foreign exchange fluctuations associated with foreign currency investments; and
- financial futures and options to reduce exposure to stock market fluctuations.

Models are used by the Company to ensure the continuing effectiveness of hedging strategies. The Company monitors the gap in market sensitivity between assets and liabilities for specific insurance and annuity business segments. That gap is managed within defined tolerance limits by the use of derivative instruments. Derivative positions are reported to the Board quarterly.

Derivative instruments are either exchange-traded or over-the-counter contracts negotiated between two counterparties. The notional amounts of the over-the-counter and exchange-traded contracts are $16,854 ($6,966 in 2000) and $128 ($359 in 2000), respectively. As at December 31, 2001, the Company had assets of $115 ($25 in 2000) pledged as collateral for contract settlements with derivative exchanges. Since counterparty failure in a derivative transaction could render it ineffective for hedging purposes, the Company transacts its derivative contracts with counterparties rated AA or better. In limited circumstances, the Company will enter into transactions with lower rated counterparties if credit enhancement features are included.

The Company has the following amounts outstanding at December 31:

2001	Fair Value Positive	Fair Value Net	Notional Amounts Term to Maturity Under 1 year	Notional Amounts Term to Maturity One to 5 years	Notional Amounts Term to Maturity Over 5 years	Total Notional Amount	Credit Equivalent Amount	Risk-Weighted Amount
Interest rate contracts	$ 121	$ (139)	$ 352	$ 3,595	$ 4,243	$ 8,190	$ 203	$ 4
Foreign exchange contracts	19	(66)	513	570	644	1,727	101	4
Equity and other contracts	319	242	1,473	4,262	1,330	7,065	872	27
Total	$ 459	$ 37	$ 2,338	$ 8,427	$ 6,217	$ 16,982	$ 1,176	$ 35

2000	Fair Value Positive	Fair Value Net	Notional Amounts Term to Maturity Under 1 year	Notional Amounts Term to Maturity One to 5 years	Notional Amounts Term to Maturity Over 5 years	Total Notional Amount	Credit Equivalent Amount	Risk-Weighted Amount
Interest rate contracts	$ 128	$ 43	$ 605	$ 2,158	$ 2,937	$ 5,700	$ 183	$ 3
Foreign exchange contracts	19	(42)	28	822	119	969	69	1
Equity and other contracts	21	(7)	384	131	141	656	38	1
Total	$ 168	$ (6)	$ 1,017	$ 3,111	$ 3,197	$ 7,325	$ 290	$ 5

The positive fair value is the maximum credit risk and the net fair value is the netted positive and negative fair value of derivative financial instruments. Fair value of interest rate swap contracts and foreign exchange swap contracts is determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair value of options and financial futures is based on the quoted market price or the value of underlying securities or indices.

The notional amount is the face value of the underlying asset or liability from which the value of the derivative is derived. The credit risk exposure, if the counterparties were to default, is indicated by the cost of replacing, at current market rates, all contracts with a positive fair value as shown above. The credit equivalent amount is the credit risk exposure plus an amount for potential future credit exposure. The risk-weighted amount is a measure of credit risk, which represents the credit equivalent amount weighted according to the nature of the derivative and the creditworthiness of the counterparty. This measure is used to determine the amount of capital necessary to support derivative transactions for certain Canadian regulatory purposes. The credit equivalent and risk-weighted amounts have been determined in accordance with guidelines provided by the Office of the Superintendent of Financial Institutions Canada.

35. Employee Future Benefits

PENSION PLANS

The Company sponsors non-contributory defined benefit pension plans for eligible employees, primarily in Canada, the United States, the United Kingdom and the Philippines. The defined benefit pension plans offer benefits based on length of service and final average earnings. The specific features of these plans vary in accordance with the countries in which employees are located. The Company's policy is to fund at least the amount required by the regulations of the countries in which the plans are offered. In addition, the Company maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various formal pension plans.

The following tables set forth the status of these pension plans. The results for 2000 presented below reflect the Company's adoption on a prospective basis beginning January 1, 2000 of the requirements of Section 3461 of the CICA Handbook. This standard requires the Company to recognize the cost of retirement benefits and certain post-employment benefits over the periods in which employees render services to the Company in return for the benefits.

	2001	2000
Change in benefit obligation:		
Benefit obligation, January 1	$ 1,317	$ 1,263
Effect of adopting Section 3461 of the CICA Handbook	–	(43)
	1,317	1,220
Service cost	54	47
Interest cost	85	80
Actuarial losses / (gains)	25	49
Benefits paid	(58)	(63)
Curtailments and plan amendments	(22)	–
Effect of changes in currency exchange rates	35	(16)
Benefit obligation, December 31	$ 1,436	$ 1,317
Change in plan assets:		
Fair value of plan assets, January 1	$ 1,715	$ 1,644
Net actual return on plan assets	–	119
Employer contributions	15	30
Benefits paid	(58)	(63)
Effect of changes in currency exchange rates	38	(15)
Fair value of plan assets, December 31	$ 1,710	$ 1,715
Net funded status, December 31	$ 274	$ 398
Unamortized net actuarial loss / (gain)	175	13
Unamortized past service cost	12	11
Unamortized transition obligation / (asset)	(203)	(223)
Prepaid benefit asset, December 31	$ 258	$ 199
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	$ 654	$ 125
Plan assets	$ 561	$ 57
Weighted-average assumptions as at December 31:		
Discount rate	6.4%	6.7%
Expected long-term rate of return on plan assets	7.8%	7.8%
Rate of compensation increase	4.1%	4.2%

	2001	2000	1999
Components of net periodic benefit cost:			
Service cost and curtailments	$ 42	$ 38	$ 54
Interest cost	85	80	77
Expected return on plan assets	(134)	(125)	(110)
Amortization of actuarial losses / (gains)	(2)	(2)	(16)
Amortization of transition obligation / (asset)	(21)	(22)	(13)
Amortization of past service cost and other	(9)	–	(2)
Net periodic benefit cost (income)	$ (39)	$ (31)	$ (10)

The assumed discount rates, the expected long-term rates of return on plan assets and the rates of increase in future compensation used in determining the actuarial present value of the projected benefit obligations vary according to the economic conditions of the countries in which the pension plans are situated.

The assets supporting the defined benefit plans and the other supplementary pension arrangements are trusteed or held in the segregated funds of the Company.

The Company has also established defined contribution pension plans for eligible qualifying employees and agents. Generally the contribution is a set percentage of an individual's annual income. The total contribution made by the Company to such plans was $38 in 2001 and $35 in 2000.

OTHER POST-RETIREMENT BENEFITS

In addition to the Company's pension plans, the Company provides certain post-retirement medical, dental and life insurance benefits to eligible employees and agents, and to their dependents upon meeting certain requirements. A significant portion of the Company's employees may become eligible for these benefits upon retirement. These post-retirement benefits are not funded.

The following tables set forth the status of the post-retirement benefit plans.

	2001	2000
Change in benefit obligation:		
Benefit obligation, January 1	$ 152	$ 141
Effect of adopting Section 3461 of the CICA Handbook	–	(14)
	152	127
Service cost	4	3
Interest cost	11	10
Actuarial losses / (gains)	22	16
Benefits paid	(6)	(5)
Effect of changes in currency exchange rates	3	1
Benefit obligation, December 31	$ 186	$ 152
Change in plan assets:		
Fair value of plan assets, January 1	$ –	$ –
Employer contributions	6	5
Benefits paid	(6)	(5)
Fair value of plan assets, December 31	$ –	$ –
Net funded status, December 31	$ (186)	$ (152)
Unamortized net actuarial loss / (gain)	41	19
Unamortized past service cost	–	–
Unamortized transition obligation / (asset)	(15)	(16)
Accrued benefit liability, December 31	$ (160)	$ (149)
Weighted-average assumption as at December 31:		
Discount rate	6.8%	7.2%

	2001	2000	1999
Components of net periodic benefit cost:			
Service cost	$ 4	$ 3	$ 3
Interest cost	11	10	9
Expected return on plan assets	–	–	–
Amortization of actuarial losses / (gains)	1	–	1
Amortization of past service cost	–	–	–
Amortization of transition obligation / (asset)	(1)	(1)	–
Net periodic benefit cost	$ 15	$ 12	$ 13

The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2001 was 8.5%, decreasing by 0.5% each year until 2006, after which it remains at 6%. In the United States in 2001, the assumed rate was 16%, decreasing to 12% in 2002 and then evenly to 5.5% by 2013, and remaining at that level thereafter. The assumed dental cost trend rate was 5.5% in Canada and in the United States.

If the health care cost trend rate assumptions were increased by 1%, the accumulated post-retirement benefit obligations would be increased by $24 as at December 31, 2001. This rate increase would increase the 2001 aggregate service and interest costs by $2. A decrease of 1% in the trend rate assumptions would result in respective decreases of about the same amounts.

36. Summary of Material Differences Between Accounting Principles Generally Accepted in Canada and in the United States

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (Cdn. GAAP), including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. These accounting principles differ in certain material respects from accounting principles generally accepted in the United States (U.S. GAAP). The differing basis of accounting changes the incidence of profit recognition over the life of an insurance contract. Regardless of the accounting basis chosen, the total profit of an insurance contract will not change. The financial statement impact and a description of the material differences follow.

A) RECONCILIATION OF SELECTED CDN. GAAP FINANCIAL STATEMENT INFORMATION TO U.S. GAAP:

i) Consolidated statements of operations

	2001		2000		1999	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	$ 9,354	$ 4,777	$ 9,113	$ 4,687	$ 8,022	$ 4,615
Net investment income	4,120	3,243	3,776	3,179	4,113	3,730
Net realized gains	–	382	–	460	–	238
Fee income	3,215	3,205	3,317	3,217	2,606	2,538
	16,689	11,607	16,206	11,543	14,741	11,121
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	9,410	5,505	9,034	5,346	9,305	5,581
Increase in actuarial liabilities	1,660	945	1,604	787	874	1,997
Acquisition expense amortization	305	697	265	693	235	481
Other expenses	4,064	3,156	4,055	3,060	3,529	2,725
	15,439	10,303	14,958	9,886	13,943	10,784
Operating income before income taxes and non-controlling interests	1,250	1,304	1,248	1,657	798	337
Income taxes	301	340	379	439	418	299
Non-controlling interests in net income of subsidiaries	68	68	67	67	46	46
Net operating income (loss) before discontinued operations and extraordinary item	881	896	802	1,151	334	(8)
Loss from discontinued operations, net of taxes	–	100	–	–	170	180
Income (loss) before extraordinary item	881	796	802	1,151	164	(188)
Extraordinary item – demutualization expenses[1]	–	–	–	(45)	–	(64)
Total net income (loss)	881	796	802	1,106	164	(252)
Less:						
Net income (loss) from mutual operations (prior to demutualization)	–	–	179	222	164	(252)
Participating policyholders' net income (loss) (after demutualization)	(1)	–	(6)	–	–	–
Shareholders' net income (after demutualization)	$ 882	$ 796	$ 629	$ 884	$ –	$ –
Earnings per share						
Net income available to shareholders	$ 882	$ 796	$ 629	$ 884		
Less: Effect of stock options of subsidiaries	5	5	4	4		
Net income available to shareholders on a diluted basis	$ 877	$ 791	$ 625	$ 880		
Weighted average number of shares outstanding (in millions)	424	424	421	421		
Add: Options of Sun Life Financial Services of Canada Inc.	–	–	–			
Weighted average number of shares outstanding on a diluted basis	424	424	421	421		
Basic earnings per share	$ 2.08	$ 1.88	$ 1.49[2]	$ 2.10[2]		
Diluted earnings per share	$ 2.07	$ 1.87	$ 1.48[2]	$ 2.09[2]		

(1) Demutualization expenses were incurred up to the date of demutualization and not attributed to shareholders.

(2) Basic and diluted earnings per share cover the period from March 22 to December 31, 2000.

ii) Comprehensive income: U.S. GAAP includes the concept of comprehensive income. Comprehensive income is a measure of changes in the equity of the Company during the year. It includes both net income and other comprehensive income. Other comprehensive income for the year includes such items as the movement in the foreign currency translation account and the unrealized gains and losses on available for sale securities. Other comprehensive income also includes the changes to deferred acquisition costs and other liabilities, as well as the income tax impact arising from the unrealized gains and losses on available for sale securities.

	2001	2000	1999
Other comprehensive income:			
Foreign currency translation account movement for the year	$ 331	$ 6	$ (487)
Unrealized gains and losses movement for the year			
Unrealized gains and losses on available for sale bonds	(96)	583	(1,846)
Unrealized gains and losses on available for sale stocks	(57)	(174)	109
Changes to deferred acquisition costs and other liabilities	(22)	(365)	1,016
Other	(9)	(24)	(78)
Income taxes	22	(103)	204
	(162)	(83)	(595)
Total other comprehensive income (loss)	169	(77)	(1,082)
Total net income (loss) based on U.S. GAAP	796	1,106	(252)
Comprehensive income (loss)	965	1,029	(1,334)
Less:			
Comprehensive income (loss) from mutual operations (prior to demutualization)	–	168	(1,334)
Shareholders' comprehensive income (after demutualization)	$ 965	$ 861	$ –

Consolidated balance sheets

	2001		2000	
	Cdn. GAAP	U.S. GAAP	Cdn.* GAAP	U.S. GAAP
Bonds	$ 48,077		$ 27,534	
Bonds – available for sale		$ 45,853		$ 26,286
Bonds – trading		3,446		2,552
Mortgages	8,622	8,615	10,179	10,176
Stocks	4,882		4,583	
Stocks – available for sale		2,208		1,851
Stocks – trading		2,162		2,694
Real estate	2,316	1,925	2,327	1,964
Policy loans	2,408	2,408	1,276	1,276
Cash and cash equivalents	2,583	4,452	2,503	2,503
Short-term securities[1]	2,226	2,226	1,459	1,459
Other invested assets	2,150	1,678	1,140	771
Total invested assets	73,264	74,973	51,001	51,532
Deferred acquisition costs	1,162	6,380	1,212	6,013
Future income taxes[2]	968	496	334	30
Other assets	4,934	5,807	2,463	3,742
Segregated funds assets[3]		49,021		49,937
Total consolidated assets	$ 80,328	$136,677	$ 55,010	$111,254
Segregated funds net assets[3]	$ 48,544		$ 49,533	
LIABILITIES AND EQUITY				
Actuarial liabilities	$ 57,858	$ 31,589	$ 32,778	$ 29,908
Contract holder deposits		32,909		10,690
Other policy liabilities	1,669	1,374	1,632	1,228
Amounts on deposit	1,898	1,869	3,864	3,819
Future income taxes[2]	329	1,046	325	973
Deferred net realized gains	3,744		3,725	
Other liabilities	4,332	6,788	4,452	4,719
Total consolidated liabilities	69,830	75,575	46,776	51,337
Subordinated debt	776	776	749	749
Cumulative capital securities of a subsidiary	954	996	900	941
Non-controlling interests in subsidiaries	1,043	1,043	68	68
Segregated funds liabilities[3]		48,567		49,539
Equity	7,725	9,720	6,517	8,620
Total consolidated liabilities and equity	$ 80,328	$136,677	$ 55,010	$111,254
Segregated funds contract liabilities[3]	$ 48,544		$ 49,533	

* As restated *(Note 3)*

(1) U.S. GAAP terminology is short-term investments.

(2) U.S. GAAP terminology is deferred income tax.

(3) U.S. GAAP terminology is separate accounts.

iv) Consolidated statements of equity:

	2001		2000	
	Cdn. GAAP	U.S. GAAP	Cdn.* GAAP	U.S. GAAP
Post-demutualization participating policyholders' capital account:				
Balance, January 1	$ 78	$ –	$ –	$ –
Transfers from retained earnings	–	–	84	–
Net income (loss) as a stock company for participating policyholders	(1)	–	(6)	–
Balance, December 31	77	–	78	–
Shareholders' equity: Paid in capital				
Balance, January 1	795	6,996	–	–
Transfer from surplus on demutualization	–	–	–	6,531
New common shares issued [1]	330	330	844	844
Commissions and offering costs, net of taxes [1]	(23)	(23)	(49)	(20)
Shares sold on behalf of certain policyholders on demutualization	–	–	–	(369)
Purchase and cancellation of common shares	(2)	(18)	–	–
Subsidiary equity transaction (after demutualization) and stock option compensation	–	67	–	10
Balance, December 31	1,100	7,352	795	6,996
Retained earnings				
Balance, January 1, as previously reported	5,478	833	–	–
Change in accounting policy	(206)	–	–	–
Balance, January 1 as restated	5,272	833	–	–
Transfer from surplus on demutualization	–	–	5,147	–
Transfers to participating policyholders' accounts	–	–	(84)	–
Shares sold on behalf of certain policyholders on demutualization	–	–	(369)	–
Net income as a stock company attributed to shareholders	882	796	629	884
Dividends on common shares	(204)	(204)	(51)	(51)
Purchase and cancellation of common shares	(33)	(17)	–	–
Balance, December 31	5,917	1,408	5,272	833
Currency translation account				
Balance, January 1 as restated	372	397	407	391
Changes for the period (prior to demutualization)	–	–	(17)	(27)
Changes for the period (after demutualization)	259	331	(18)	33
Balance, December 31	631	728	372	397
Unrealized gains and losses				
Balance, January 1	–	394	–	477
Changes for the period (prior to demutualization)	–	–	–	(27)
Changes for the period (after demutualization)	–	(162)	–	(56)
Balance, December 31	–	232	–	394
Mutual company surplus (prior to demutualization):				
Balance, January 1, as previously reported	–	–	5,489	6,512
Change in accounting policy	–	–	(206)	–
Balance, January 1 as restated	–	–	5,283	6,512
Subsidiary equity transaction (prior to demutualization)	–	–	–	(2)
Demutualization costs, net of taxes [2]	–	–	(114)	–
Net income as a mutual company	–	–	179	222
Cash distribution to policyholders at demutualization	–	–	(201)	(201)
Transfers to shareholders' paid-in capital on demutualization	–	–	–	(6,531)
Transfer to retained earnings on demutualization	–	–	(5,147)	–
Balance, December 31	–	–	–	–
Total equity	$ 7,725	$ 9,720	$ 6,517	$ 8,620

* As restated *(Note 3)* (1) Shown as share capital under Cdn. GAAP. (2) Treated as an extraordinary item under U.S. GAAP.

v) Effect of material differences between Cdn. GAAP and U.S. GAAP net income: For the material differences between Cdn. GAAP and U.S. GAAP net income listed below, please refer to the following section for a description of the differences in accounting policies.

	2001	2000	1999
Total net income in accordance with Cdn. GAAP	$ 881	$ 802	$ 164
Adjustments related to:			
Investments			
Bonds	31	8	137
Stocks	(541)	(220)	38
Derivative instruments	22	26	(234)
Real estate	(9)	60	5
Total investments	(497)	(126)	(54)
Deferred acquisition costs			
Deferred acquisition costs – deferred	585	644	519
Deferred acquisition costs – amortization and interest	(392)	(428)	(246)
Total deferred acquisition costs	193	216	273
Actuarial liabilities & other policyholder revenues and expenses			
Premium and fees revenue	(4,228)	(4,155)	(3,215)
Payments to policyholders, beneficiaries and depositors	3,905	3,688	3,724
Actuarial liabilities	715	817	(1,123)
Total actuarial liabilities & other policyholder revenues and expenses	392	350	(614)
Other	(134)	(31)	(76)
Income tax effect of above adjustments	(39)	(60)	119
Extraordinary demutualization expense	–	(45)	(64)
Total net income (loss) in accordance with U.S. GAAP	$ 796	$ 1,106	$ (252)

B) THE FOLLOWING DESCRIBES THE MATERIAL ACCOUNTING POLICY DIFFERENCES BETWEEN CDN. GAAP AND U.S. GAAP APPLICABLE TO THE COMPANY

For a complete description of Cdn. GAAP accounting and actuarial policies, please refer to Notes 1 and 2, respectively.

i) Bonds: Under Cdn. GAAP, bonds are carried at amortized cost. Realized gains and losses are deferred and amortized to income using the constant yield method over the remaining period to maturity. Under U.S. GAAP, bonds are carried at market value. The bonds are classified as available for sale or trading and unrealized gains and losses are included in other comprehensive income if classified as available for sale, and included in net income if classified as trading. Realized gains and losses are included in net income when realized.

For purposes of U.S. GAAP, at December 31, 2001 and 2000, the Company has classified as available for sale bonds with an amortized cost of $44,785 and $25,136, respectively, and fair value of $45,853 and $26,286, respectively. Gross realized gains and gross realized losses on available for sale bonds of $222 and $15, respectively, in 2001, $139 and $205, respectively, in 2000 and $234 and $115, respectively, in 1999 are included in U.S. GAAP net realized gains. For bonds classified as trading, the change in net unrealized gains and (losses) for the years ended December 31, 2001, 2000 and 1999 of $(7), $115 and $132, respectively, are included in U.S. GAAP net investment income.

ii) Stocks: Under Cdn. GAAP, stocks are originally recorded at cost. The carrying value is adjusted annually by 15% of the difference between market value and previously adjusted carrying value. Realized gains and losses are deferred and amortized into income at the rate of 15% per year. Under U.S. GAAP, stocks are carried at market value. The stocks are classified as available for sale or trading and unrealized gains and losses are included in other comprehensive income if classified as available for sale, and included in net income if classified as trading. Realized gains and losses are included in net income when realized.

For purposes of U.S. GAAP, at December 31, 2001 and 2000, the Company has classified as available for sale investments in stocks with a cost of $2,045 and $1,630, respectively, and fair value of $2,208 and $1,851, respectively. Gross realized gains and gross realized losses on available for sale stocks of $226 and $176, respectively, in 2001, $474 and $110, respectively, in 2000, and $332 and $138, respectively, in 1999 are included in U.S. GAAP net realized gains. For stocks classified as trading, the change in net unrealized gains and (losses) for the years ended December 31, 2001, 2000 and 1999 of $(359), $(235) and $265, respectively, are included in U.S. GAAP net investment income.

iii) Real estate: Under Cdn. GAAP, real estate held for investment is originally recorded at cost. The carrying value is adjusted annually by 10% of the difference between market value and previously adjusted carrying value. Realized gains and losses on sales are deferred and recognized into income at the rate of 10% per year. Under U.S. GAAP, real estate held for investment is carried at depreciated cost. Realized gains and losses on sales are reflected in income when realized.

Accumulated depreciation on real estate was $386 and $372 at December 31, 2001 and 2000, respectively. Depreciation expense was $39 in 2001, $9 in 2000 and $43 in 1999.

iv) Derivatives: Under Cdn. GAAP, all the Company's derivatives are eligible for hedge accounting. Realized gains and losses of the derivatives are treated in a manner consistent with realized gains and losses of the underlying hedged assets or liabilities. The reporting basis does not affect the economic viability of any hedges. Under U.S. GAAP, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on January 1, 2001. The cumulative effect of adopting SFAS 133 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows. At the initial adoption of SFAS 133, the Company recorded total cumulative gains of $8 in income to recognize the fair value of all derivatives that were fair value hedges prior to the adoption of the standard. The Company also recorded cumulative losses of $9 in income to recognize the difference between the carrying and fair values of the related hedged assets and liabilities. Additionally, the Company recorded a cumulative loss of $2, net of taxes, in accumulated other comprehensive income (OCI) to recognize the fair value of the derivatives that were cash flow hedges prior to the adoption of SFAS 133.

When the Company enters into a derivative contract, management decides if the derivative is designated as a hedge of the identified exposure under SFAS 133. With the exception noted below, hedge accounting is not pursued under SFAS 133 for most derivative instruments and the derivative is recorded at fair value with changes in its fair value reported in income. As at December 31, 2001, the Company designated certain interest rate swaps as cash flow hedges of the interest rate risk related to a floating-rate loan. For the cash flow hedges, the effective portion of the changes in the fair value of the derivatives was recorded in OCI and the ineffective portion was recognized in income. For the period ended December 31, 2001, the change in the fair value of the cash flow hedges was $6 after taxes and there was no ineffectiveness from the hedges. The Company expects to reclassify $1 of the cumulative effect of SFAS 133 from OCI to income during the next twelve months.

If an option of a non-derivative contract has economic characteristics that are different from that of the non-derivative contract and the option meets the definition of a derivative instrument under SFAS 133, the option is known as an embedded derivative. A few embedded derivatives were identified in the investments and insurance products. These embedded derivatives were separately accounted for as stand-alone derivatives and carried at fair values with the changes in fair value recorded in income.

v) Deferred acquisition costs: Under Cdn. GAAP, costs of acquiring new insurance and annuity business, primarily commissions, underwriting, issue expenses and agency expenses, are implicitly recognized in actuarial liabilities for most of the policies. U.S. GAAP requires the explicit deferral of acquisition costs. Amortization of such costs is dependent on the product to which the costs relate. For participating life insurance contracts, except for participating policies in the United Kingdom, amortization is based on a constant percentage of gross margin. For universal life and investment-type contracts, amortization is based on a constant percentage of gross profit. For other non-participating products, including term, group and disability insurance, as well as participating policies in the United Kingdom, amortization is based on a constant percentage of premium. In cases where amortization is based on gross profit or margin, and available for sale bonds or stocks are used to support the underlying contract liability or actuarial reserve, a portion of the unrealized gains and losses balance is removed from equity and netted against the deferred acquisition cost balance.

Deferred acquisition costs under U.S. GAAP amount to $6,380 at December 31, 2001 ($6,013 at December 31, 2000). Amortization charged to income was $697 in 2001, $693 in 2000 and $481 in 1999.

vi) Future income tax asset and liability[1]: Under both Cdn. and U.S. GAAP, the Company provides for future income taxes on temporary differences between book and tax assets and liabilities. Differences between Cdn. GAAP and U.S. GAAP arise from differing accounting policies for assets and liabilities and differences in the recognition of tax rate changes. Differences are as follows:

	2001			
	Future income tax asset[1]		Future income tax liability[1]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 115	$ 35	$ 74	$ 706
Actuarial liabilities	364	800	197	(895)
Deferred acquisition costs	324	(275)	123	1,169
Operating losses available for carry forward	66	8	(560)	(617)
Other	117	(57)	7	332
Future tax asset/liability before valuation allowance	986	511	(159)	695
Valuation allowance	(18)	(15)	488	351
Total	$ 968	$ 496	$ 329	$ 1,046

	2000			
	Future income tax asset[1]		Future income tax liability[1]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 190	$ (11)	$ 17	$ 743
Actuarial liabilities	(217)	530	54	(797)
Deferred acquisition costs	135	(412)	282	1,289
Operating losses available for carry forward	185	–	(684)	(880)
Other	42	(77)	45	147
Future tax asset/liability before valuation allowance	335	30	(286)	502
Valuation allowance	(1)	–	611	471
Total	$ 334	$ 30	$ 325	$ 973

[1] U.S. GAAP terminology is deferred income tax.

vii) Actuarial liabilities and contract holder deposits: Under Cdn. GAAP, actuarial liabilities are calculated in accordance with Canadian generally accepted actuarial practice. This method uses best estimate assumptions for future experience factors adjusted to provide modest margins for adverse deviation in each experience factor. Under U.S. GAAP, actuarial liabilities for participating life policies, except those in the United Kingdom, are computed using a net level premium reserve method with interest and mortality assumptions based primarily upon those assumptions used for establishing the cash surrender values in the contract. For universal life-type and investment contracts, contract holder deposits represent account balances and U.S. GAAP liabilities primarily equal account value balances. The account values represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Other non-participating products include term, group and disability insurance. For these products, as well as participating contracts in the United Kingdom, a net level premium method is used with assumptions locked in at time of issue, unless the business is in a loss recognition position, in which case a best estimate gross premium valuation is used.

viii) Deferred net realized gains: Cdn. GAAP defers and amortizes realized gains and losses on sales of invested assets. Under U.S. GAAP, realized gains and losses are recognized in income immediately.

ix) Premium revenue, fee income, maturities and surrenders, and interest on claims and deposits: Under Cdn. GAAP, premiums for universal life and other investment-type contracts are recorded as revenue, and a liability for future policy benefits is established as a charge to income. Interest accrued on contracts is shown as an increase in actuarial liabilities. Payments to contract holders upon maturity are reflected as an expense with an offsetting reduction to the increase in actuarial liabilities. Under U.S. GAAP, amounts received for universal life and investment-type contracts are not included in the income statement but are reported as deposits to contract holder account balances. Revenues from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges,

and are included in fee income when earned. Interest accrued on contracts is included in interest on claims and deposits. Payments upon maturity or surrender are reflected as reductions to the contract holder deposits on the balance sheet. Other payments in excess of the account value, such as death claims, are reflected as an expense.

x) Segregated funds[1]: Under Cdn. GAAP, assets and liabilities of segregated funds are shown separately from general assets and liabilities of the Company. U.S. GAAP requires these separate accounts to be included within the financial statements of the Company. Under Cdn. GAAP, the Company's investment in segregated funds is included in other invested assets. Under U.S. GAAP, any excess of the separate account assets over separate account liabilities represents the Company's investment in segregated funds.

(1) U.S. GAAP terminology is separate accounts.

xi) Redemption of subordinated debts: In 2001, the Company notified the debenture holders of its intention to repay the 8.49% capital debentures. Under Cdn. GAAP, the prepayment premiums of the debentures in the amount of $30, net of taxes of $7, were recorded. Under U.S. GAAP, the prepayment premiums are not recorded until the subordinated debts are extinguished.

xii) Securities lending: The Company engages in securities lending to generate additional income. Under Cdn. GAAP, cash collateral received for the loaned securities is not recorded as assets and liabilities of the Company. Under U.S. GAAP, the cash collateral and the investments made with the cash collateral are included in cash and cash equivalents and the payable under the loaned securities agreements in other liabilities. As at December 31, 2001, the payable under the loaned securities agreements was $1,869 and the carrying values of the securities loaned were $2,453.

xiii) Acquisition of Keyport and IFMG: Effective October 31, 2001, the Company acquired 100% of the outstanding common shares of Keyport and IFMG as described in Note 4. The following amounts of the assets, liabilities and goodwill at the date of acquisition under Cdn. and U.S. GAAP are different due to the different accounting policies used for the two standards.

	Keyport/IFMG	
	Cdn. GAAP	U.S. GAAP
Invested assets acquired	$ 22,504	$ 24,188
Other assets acquired	1,328	1,029
Segregated funds assets acquired	–	3,944
	23,832	29,161
Actuarial liabilities and other policy liabilities acquired	22,554	–
Contract holder deposits acquired	–	21,497
Other liabilities acquired	482	2,209
Segregated funds liabilities acquired	–	3,902
	23,036	27,608
Net balance sheet assets acquired	796	1,553
Cash cost of acquisition	2,744	2,744
Goodwill on acquisition	$ 1,948	$ 1,191

The following supplemental pro forma information has been prepared to give effect to the acquisition, as if the transaction had been completed at the beginning of each year. This information is calculated by combining the results of operations of the Company for 2001 and 2000 with that of Keyport and IFMG prior to the acquisition date and adjusting for the foregone investment income, net of taxes, on the funds used for the acquisition ($38 in 2001 and $46 in 2000) and the distributions paid on the SLEECS, net of taxes ($31 in 2001 and $38 in 2000). However, goodwill and intangible assets arising from the acquisition were not amortized in the calculation.

The pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of each respective year or what may be obtained in the future.

Supplemental pro forma condensed information:

	2001	2000
Revenue	$ 12,095	$ 12,131
Income before extraordinary items	$ 843	$ 1,272
Cumulative effect of accounting changes	$ (94)	$ –
Net income available to shareholders	$ 749	$ 1,005
Weighted average number of shares outstanding (in millions)	432	432
Basic earnings per share	$ 1.73	$ 2.33
Net income available to shareholders on a diluted basis	$ 744	$ 1,001
Weighted average number of shares outstanding on a diluted basis (in millions)	432	432
Diluted earnings per share	$ 1.72	$ 2.32

xiv) Stock-based compensation: The intrinsic value method of accounting is used to account for stock options under both Cdn. and U.S. GAAP. On March 30, 2001, the Company granted stock options under the Executive Stock Option Plan, prior to the shareholders' approval of the plan at the Annual and Special Meeting on April 25, 2001. Under Cdn. GAAP, no compensation expense is recognized for these options on the grant date, since the exercise price is set at the closing price of the common shares on the trading day preceding the grant date. Under U.S. GAAP, the options were accounted for as if they were granted on April 25, 2001. The intrinsic value of the options, being the difference between the April 25, 2001 closing price and the exercise price of the common shares, is allocated over a four-year vesting period as compensation expense.

The weighted average fair value of options granted at the grant date for the year ended December 31, 2001 was estimated to be $9.66 per share using the Black-Scholes option pricing model. This pricing model assumes the following information: risk-free interest rates of 4.2% to 5.4%, an expected life of 7 years, an expected common stock volatility of 26% and an expected dividend yield of 1.5%. Had the fair value method been used for all the options granted, net income for the year ended December 31, 2001 would have been reduced by $17, and both basic and diluted earnings per share reduced by $0.04 per share.

xv) Shares purchased and cancelled under the Normal Course Issuer Bid Program: The paid in capital equity account and retained earnings were reduced by different amounts under Cdn. and U.S. GAAP for the purchase and cancellation of common shares, as the average cost per share under both accounting standards are not the same.

xvi) Impact of the terrorist attacks on September 11, 2001: The terrorist attacks on September 11, 2001 in the United States resulted in significant financial losses and human casualties. However, the direct financial impact to the Company of these attacks, which is primarily due to death claims, is not expected to be material. As at December 31, 2001, the Company recognized a net loss of $4 after taxes related to these claims. This loss does not include the impact on revenue from the wealth management business due to the decline in asset market values and any indirect investment losses.

xvii) Demutualization: To reflect demutualization under Cdn. GAAP, the surplus of Sun Life Assurance was transferred to retained earnings in the consolidated financial statements of Sun Life Financial Services of Canada Inc. as it was accounted for on a continuity of interest basis as a continuation of the historical operations of Sun Life Assurance. Under U.S. GAAP, the mutual company surplus at demutualization was transferred to the paid-in capital equity account of Sun Life Financial Services of Canada Inc. and retained earnings includes only net income after demutualization.

For 1999, under Cdn. GAAP certain demutualization costs were capitalized. Under U.S. GAAP these costs are treated as an extraordinary item, net of taxes. For 2000, demutualization and public offering costs under Cdn. GAAP are a capital transaction reducing surplus. Under U.S. GAAP, demutualization and secondary offering costs are an extraordinary expense.

C) STATEMENTS OF CASH FLOWS

Under Cdn. GAAP, deposits, maturities and withdrawals related to investment-type contracts and universal life contracts are included in operating activities. Under U.S. GAAP, deposits, maturities and withdrawals are reflected as financing activities; these cash flow items are as follows:

	2001	2000	1999
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	$ 4,276	$ 4,100	$ 3,174
Withdrawals from policyholders' accounts	$ 4,724	$ 4,279	$ 4,400

D) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARD NOT YET ADOPTED BY THE COMPANY:

Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). The Company adopted the transitional provisions of SFAS 142 on July 1, 2001 and will adopt all the provisions of SFAS 142 on January 1, 2002. SFAS 142 requires intangible assets with an indefinite life and goodwill to be tested for impairment on an annual basis. Goodwill and indefinite life intangibles will no longer be amortized. The Company will cease amortization of goodwill and perform the impairment tests on goodwill in 2002. The impact of this change is not expected to be material to the consolidated financial statements.

FASB issued Statement of Financial Accounting Standard No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). The Company will adopt SFAS 143 on January 1, 2003. SFAS 143 requires companies to record the fair value of an asset retirement obligation in the period in which it is incurred and increase the carrying amount of the related long-lived asset. Interest expense on the asset retirement obligation is accrued each period and the capitalized cost is depreciated over the useful life of the related asset. If the obligation is not settled for its recorded amount, a gain or loss on settlement will be realized. The impact of this change is not expected to be material to the consolidated financial statements.

FASB issued Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). The Company will adopt SFAS 144 on January 1, 2002. SFAS 144 established a single accounting model for long-lived assets to be disposed of by sale. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board Opinion No. 30 "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business" for the disposal of segments of a business. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The impact of this change has not yet been determined by the Company.

37. Comparative Figures

Certain comparative figures have been restated to conform with the presentation adopted in 2001.

Appointed Actuary's Report

THE SHAREHOLDERS AND DIRECTORS
OF SUN LIFE FINANCIAL SERVICES OF CANADA INC.

I have valued the policy liabilities of Sun Life Financial Services of Canada Inc. for its consolidated balance sheets at December 31, 2001 and 2000 and their change in the consolidated statements of operations for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders' obligations and the consolidated financial statements fairly present the results of the valuation.

Robert W. Wilson

Robert W. Wilson
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 13, 2002

Auditors' Report

THE SHAREHOLDERS
OF SUN LIFE FINANCIAL SERVICES OF CANADA INC.

We have audited the consolidated balance sheets of Sun Life Financial Services of Canada Inc. and the separate consolidated statements of segregated funds net assets as at December 31, 2001 and 2000, and the consolidated statements of operations, equity, cash flows and changes in segregated funds net assets for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2001 and 2000 and the results of the Company's operations, its cash flows and the changes in its segregated funds net assets for each of the years in the three-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Canada
February 13, 2002

Six-Year Summary by Industry

(in millions of Canadian dollars)	2001	2000	1999	1998	1997	1996
Total Assets Under Management (As at December 31)						
Wealth Management	315,159	293,840	268,949	220,646	158,839	117,155
Protection	33,163	30,345	27,471	26,918	23,074	20,913
Corporate and Other	3,425	4,348	4,883	3,042	4,341	3,711
Total Company	351,747	328,533	301,303	250,606	186,254	141,779
Net Operating Income (For the year ended December 31)						
Wealth Management	513	469	(31)	(280)	113	296
Protection	406	330	317	548	317	123
Corporate and Other	(38)	3	48	134	91	67
Total Company	881	802	334	402	521	486

Six-Year Summary by Segment

(in millions of Canadian dollars)		2001	2000	1999	1998	1997	1996
Total Assets Under Management (As at December 31)							
Canada		52,505	50,532	49,352	43,477	38,397	28,233
United States:	Sun Life	78,517	47,300	40,930	39,620	32,448	26,114
	MFS	220,163	222,832	200,394	153,200	101,095	72,194
United Kingdom		20,329	29,661	31,276	30,578	24,552	22,461
Asia		1,852	1,472	1,348	1,215	893	902
Other		2,396	3,470	2,978	3,537	3,324	2,366
Consolidation Adjustments		(24,015)	(26,734)	(24,975)	(21,021)	(14,455)	(10,491)
Total Company		351,747	328,533	301,303	250,606	186,254	141,779
Net Operating Income (For the year ended December 31)							
Canada		207	195	220	266	249	153
United States:	Sun Life	226	228	236	245	156	36
	MFS	231	256	187	113	86	68
United Kingdom		180	119	(297)	(336)	(72)	105
Asia		20	27	38	28	36	37
Other		17	(23)	(50)	86	66	87
Total Company		881	802	334	402	521	486

Eleven-Year Summary

(in millions of Canadian Dollars)	10-Year Average Compound Growth Rate %	5-Year Average Compound Growth Rate %	2001	2000
ASSETS (AS AT DECEMBER 31)				
General Fund Assets[1]	10.9	11.9	80,328	55,010
Segregated Fund Assets[1]	20.8	13.1	48,544	49,533
Other Assets Under Management	21.8	26.1	222,875	223,990
Total Assets Under Management	18.0	19.9	351,747	328,533
TOTAL EQUITY[1]	8.7	8.4	7,725	6,517
OPERATING RESULTS (FOR THE YEAR ENDED DECEMBER 31)				
Revenue				
Premiums				
Annuities	6.0	17.0	4,196	4,371
Life Insurance	8.5	5.8	3,749	3,455
Health Insurance	9.4	7.2	1,409	1,287
Total Premiums	7.4	10.3	9,354	9,113
Net Investment Income	4.6	3.4	4,120	3,776
Fee Income	23.0	23.8	3,215	3,317
Total Revenue	8.2	10.1	16,689	16,206
Payments to Policyholders, Beneficiaries and Depositors[2]	10.2	7.8	9,410	9,034
Increase in Actuarial Liabilities	(3.5)	12.3	1,660	1,604
Commissions & Expenses	12.4	14.5	4,201	4,161
Interest Expenses	11.6	12.1	168	159
Income Taxes	24.7	6.4	301	379
Non-controlling Interests in Net Income of Subsidiaries	N/A	N/A	68	57
Net Operating Income	12.8	12.6	881	802
Confederation Life Goodwill Write-off	N/A	N/A	–	
Net Income from Continuing Operations	12.8	12.6	881	[illegible]
Loss/(Net Income) for Discontinued Operations, net of income taxes	N/A	N/A	–	
Total Net Income	12.6	12.4	881	[illegible]
BUSINESS STATISTICS				
Life Insurance in Force[3]	8.2	3.4	607,801	561,389
Mutual Fund Sales	27.4	24.6	39,466	45,614
Managed Fund Sales[4]	38.7	52.6	31,953	25,869
Segregated Fund Deposits	16.9	9.5	5,851	8,318
Employees	3.8	3.9	11,787	11,328

(1) The 1999 and 2000 amounts were restated in 2001 as a result of the adoption, in October 2001, of the new Canadian standards of practice issued by the Canadian Institute of Actuaries for the valuation of policy liabilities of life insurers.

(2) Includes net transfers to segregated funds.

(3) Includes reinsurance assumed.

(4) Includes intercompany sales.

1999	1998	1997	1996	1995	1994	1993	1992	1991
54,241	54,319	49,700	45,709	42,382	40,297	34,070	31,324	28,459
46,524	39,213	30,519	26,250	23,709	20,313	10,615	8,428	7,356
200,538	157,074	106,035	69,820	57,196	46,465	44,069	37,078	31,124
301,303	250,606	186,254	141,779	123,287	107,075	88,754	76,830	66,939
5,690	6,081	5,715	5,152	4,868	4,576	4,073	3,822	3,350
3,494	2,409	2,488	1,916	2,241	2,409	1,917	2,057	2,353
3,332	3,313	2,955	2,822	2,658	2,418	2,192	1,962	1,656
1,196	1,110	1,062	994	941	789	674	647	572
8,022	6,832	6,505	5,732	5,840	5,616	4,783	4,666	4,581
4,113	4,035	3,788	3,482	3,408	2,759	2,588	2,628	2,618
2,606	2,014	1,427	1,107	830	679	556	476	407
14,741	12,881	11,720	10,321	10,078	9,054	7,927	7,770	7,606
9,305	8,492	7,620	6,459	6,242	4,676	4,223	3,994	3,573
874	480	697	928	1,238	2,141	2,003	1,921	2,370
3,603	3,027	2,528	2,132	1,947	1,798	1,542	1,528	1,310
161	182	145	95	68	29	18	51	56
418	274	201	221	177	120	(9)	42	33
46	24	8	–	–	–	–	–	–
334	402	521	486	406	290	150	234	264
–	260	–	–	–	–	–	–	–
334	142	521	486	406	290	150	234	264
170	88	10	(4)	(1)	(14)	(1)	–	(4)
164	54	511	490	407	304	151	234	268
673,322	670,094	588,773	514,337	476,657	421,082	343,653	300,831	276,127
38,123	33,849	18,791	13,150	7,453	6,628	7,025	5,198	3,504
13,939	12,255	10,304	3,860	3,448	3,324	1,306	1,047	1,215
4,137	4,345	3,430	3,719	3,619	2,174	2,095	1,567	1,232
11,046	10,717	10,200	9,750	9,150	9,150	8,300	8,200	8,150

Board Governance

MISSION

The mission of the Board of Directors of Sun Life Financial Services of Canada Inc. is to be a strategic asset of the organization measured by the contribution the directors make – individually and collectively – to the long-term success of Sun Life Financial.

BOARD CHARTER

The Board has approved a Charter which outlines the Board's overall stewardship responsibilities. Those responsibilities include the selection, evaluation and compensation of the Chief Executive Officer and other senior executives and succession planning for those positions, approving strategic plans and monitoring performance against those plans, approving the risk management framework for the enterprise, approving material transactions, and reviewing the financial performance and condition of Sun Life Financial.

GOVERNANCE PRINCIPLES

Sun Life Financial's corporate governance structure and practices are designed to assist the Board of Directors in fulfilling its Mission by strengthening its ability to oversee the management of the organization and to create shareholder value. The organization's governance system is consistent with The Toronto Stock Exchange Guidelines for Effective Corporate Governance. Point-by-point comparison to those Guidelines is contained in the Management Information Circular issued in connection with the 2002 Annual Meeting.

LEADERSHIP

Donald Stewart, Chairman of the Board and Chief Executive Officer, and William Stinson, the Lead Director, provide leadership to the Board of Directors. The Lead Director's responsibilities include ensuring that the Board functions independently of management. The Lead Director regularly chairs segments of Board meetings at which no management directors or other members of management are present.

HOW THE BOARD OPERATES

As at December 31, 2001, the Board consisted of 14 directors, of whom the Chairman and Chief Executive Officer is the sole management director. The Board has created six standing Committees to assist it in fulfilling its oversight responsibilities. The role of each Committee, and its current members, are set out below. All members of the Board Committees are non-management directors.

The Board has six regularly scheduled meetings with special meetings being held when needed. Most Committees meet quarterly. Directors' seminars are held during the year to provide the non-management directors with background and perspective on the organization's ongoing activities. New directors are given a comprehensive orientation program.

To promote a greater alignment of interests between the non-management directors and shareholders, the Board has adopted a share ownership policy for non-management directors.

INITIATIVES IN 2001

During 2001 the Board adopted a formal Charter and Mission Statement, revised the Charters for each of the Board Committees, and updated the position description of the Lead Director. The regular Board effectiveness review was undertaken and a formal peer review process for directors was introduced.

BOARD COMMITTEES

The following is a brief summary of some of the key responsibilities of the six Board Committees and their current membership:

Audit Committee

The Audit Committee oversees the integrity of financial statements and information provided to shareholders and others, the adequacy and effectiveness of the internal control environment implemented and maintained by management, and the independence and performance of the external auditors who are accountable to the Audit Committee, the Board of Directors and the shareholders.

Members: Ronald Osborne – Chair, James Baillie, Dian Cohen, Stanley Hartt, Sir Bob Reid.

Conduct Review Committee

The Conduct Review Committee reviews the related party procedures and practices of the organization in accordance with statutory requirements.

Members: Ronald Osborne – Chair, James Baillie, Dian Cohen, Stanley Hartt, Sir Bob Reid.

Executive Committee

The Executive Committee considers questions of general policy and administration and reviews investment portfolios.

Members: John McNeil – Chair, James Baillie, William Stinson, David Vice.

Governance Committee

The Governance Committee is responsible for assessing the effectiveness of the corporate governance process and recommending nominees for election as directors. On an annual basis, the Governance Committee makes recommendations to the Board with regard to the process relating to meetings of the Board, including the timing and frequency of meetings, the content of agendas and informational requirements of the directors.

Members: Bertin Nadeau – Chair, Donald Macdonald, John McNeil, Madeleine Paquin, William Stinson, David Vice.

Management Resources Committee

The Management Resources Committee is responsible for succession planning for the position of Chief Executive Officer and other senior management positions, reviewing the performance of the Chief Executive Officer and senior management and approving their remuneration, assessing compensation policies and overseeing employee pension plans.

Members: William Stinson – Chair, William Fatt, Ronald Osborne, Vickery Stoughton, David Vice.

Risk Review Committee

The Risk Review Committee is responsible for overseeing the major areas of risk facing the organization, including approving and reviewing compliance with investment, risk management and regulatory compliance policies.

Members: Sir Bob Reid – Chair, Dian Cohen, Stanley Hartt, Donald Macdonald, Bertin Nadeau.

Board of Directors
as at December 31, 2001

All directors of Sun Life Financial Services of Canada Inc. are also directors of Sun Life Assurance Company of Canada.

Donald A. Stewart, F.I.A., F.C.I.A.
Chairman & Chief Executive Officer
Toronto, Ontario

William W. Stinson
Lead Director
Calgary, Alberta

James C. Baillie, Q.C.
Counsel
Torys LLP
Toronto, Ontario

Dian N. Cohen, C.M., LL.D.
President
Dian Cohen Productions Ltd.
Ayer's Cliff, Quebec

William R. Fatt
Chief Executive Officer
Fairmont Hotels & Resorts Inc.
Toronto, Ontario

Stanley H. Hartt, O.C., Q.C.
Chairman
Salomon Smith Barney Canada Inc.
Toronto, Ontario

The Hon. Donald S. Macdonald, P.C., C.C.
Corporate Director
Toronto, Ontario

John D. McNeil, C.F.A.
Chairman
Fairmont Hotels & Resorts Inc.
Toronto, Ontario

Bertin F. Nadeau
Chairman & Chief Executive Officer
GescoLynx Inc.
Montreal, Quebec

Ronald W. Osborne, F.C.A.
President & Chief Executive Officer
Ontario Power Generation Inc.
Toronto, Ontario

Madeleine M. Paquin
President & Chief Executive Officer
Logistec Corporation
Montreal, Quebec

Sir Bob Reid
Deputy Governor
Bank of Scotland
London, England

W. Vickery Stoughton
Chairman & Chief Executive Officer
Careside, Inc.
Los Angeles, California

David G. Vice
Corporate Director
Mississauga, Ontario

Officers

Donald A. Stewart
Chairman & Chief Executive Officer

C. James Prieur
President & Chief Operating Officer

Thomas A. Bogart
Executive Vice-President
& Chief Legal Officer

Paul W. Derksen
Executive Vice-President
& Chief Financial Officer

Marcel Gingras
Executive Vice-President,
Canadian Operations

Peter N. Hanby
Managing Director, Sun Life Assurance
Company of Canada
(U.K.) Limited

Douglas C. Henck
Executive Vice-President,
Asian Operations

James A. McNulty III
Executive Vice-President,
U.S. Operations

John R. Wright
Executive Vice-President
& Chief Information Officer

Claude A. Accum
Vice-President, Investments and
Risk Management

James M. A. Anderson
Vice-President, Investments,
United States Operations

Thomas J. Clulow
Vice-President, Capital Finance

Gary M. Comerford
Vice-President, International and
General Manager, India

Greta Cusworth
Vice-President, Group Benefits,
Canadian Operations

Paul J. Davies
Managing Director, Group Insurance,
Sun Life Assurance Company of Canada
(U.K.) Limited

Peter F. Demuth
Vice-President, Chief Strategy and
Business Development Officer,
United States Operations

Janet M. De Silva
Chairman & Chief Executive Officer,
Sun Life Financial (Hong Kong) Limited

Mark W. DeTora
Vice-President, Individual Insurance,
United States Operations

Kevin P. Dougherty
Vice-President, Group Retirement Services,
Canadian Operations

H. Anthony Fenn
Vice-President, Investments,
Asian Operations

Ronald Fernandes
Vice-President, Retirement Products
& Services, United States Operations

Paul M. Field
Vice-President, Retail Business
Development, Canadian Operations

Ronald Friesen
Vice-President, Tax

Lilian Hee-Karstadt
Vice-President & Internal Auditor

Nigel I. Hodges
Vice-President & Controller

Vicken Kazazian
Vice-President, Operations,
Canadian Operations

Paulette Kennedy
Vice-President, Finance
& Actuarial, Canadian Operations

Christine I. Mackiw
Vice-President, Law
& Chief Compliance Officer

K. Louise McLaren
Vice-President, Human Resources

Donald Mutch
Vice-President, Investments,
Canadian Operations

Dikran Ohannessian
Vice-President, Integration

Philip K. Polkinghorn
Vice-President, Retirement Products
& Services, United States Operations

Thomas G. Reid
Vice-President, Finance

Officers
(cont'd)

Thomas R. Rice
Vice-President, Investor Relations

Geoffrey R. Saggers
President Director,
PT Sun Life Financial Indonesia

Davey S. Scoon
Vice-President & Chief Administrative and Financial Officer,
United States Operations

Robert J. Sharkey
Senior Vice-President,
Corporate Finance

Michael Shunney
Vice-President, Group Insurance,
United States Operations

Esther Tan
President, Sun Life of Canada (Philippines), Inc.

James H. Van Harmelen
Vice-President & Chief Financial Officer,
Asian Operations

Angus B. Warren
Vice-President & General Manager,
Reinsurance

Robert W. Wilson
Vice-President & Actuary

MASSACHUSETTS FINANCIAL SERVICES COMPANY (MFS)

Jeffrey L. Shames
Chairman & Chief Executive Officer

John W. Ballen
President

Joseph W. Dello Russo
Executive Vice-President
& Chief Administrative Officer

Kevin R. Parke
Executive Vice-President
& Chief Investment Officer

INDEPENDENT FINANCIAL MARKETING GROUP, INC.

Robert L. Spadafora
President

MCLEAN BUDDEN LIMITED

Douglas W. Mahaffy
Chairman & President

SPECTRUM INVESTMENT MANAGEMENT LIMITED

Gary Corsi
President & Chief Executive Officer

Subsidiary Companies

OF SUN LIFE FINANCIAL SERVICES OF CANADA INC

AS AT DECEMBER 31, 2001 (in thousands of Canadian dollars)

	Address of Head or Principal Office	Book Value of Shares Owned by Company *	Percent of Voting Shares Owned by Company *
SUN LIFE ASSURANCE COMPANY OF CANADA	Toronto, Canada	1,198,715	100%
3060097 Nova Scotia Company	Halifax, Canada	795,000	100%
IQON Financial Management Inc.	Winnipeg, Canada	5,759	51%
IQON Financial Inc.	Winnipeg, Canada		100%
IQON Insurance Brokerage Inc.	Winnipeg, Canada		75.5%
McLean Budden Limited	Toronto, Canada	50,423	60%
McLean Budden Funds Inc.	Toronto, Canada		100%
Spectrum Investment Management Limited	Toronto, Canada	110,014	100%
Sun Life Capital Trust	Toronto, Canada	-5,155	100%
Sun Life Financial Advisory Services Inc.	Toronto, Canada	396	100%
Sun Life Financial (Hungary) Investments Inc.	Toronto, Canada	2	100%
Sun Life Financial (India) Insurance Investments Inc.	Toronto, Canada	7,804	100%
Sun Life Financial Quantitative Management Inc.	Toronto, Canada	511	100%
Sun Life Financial Realty Advisors Inc.	Toronto, Canada	-2	100%
Sun Life Financial Trust Inc.	Toronto, Canada	8,011	100%
Sun Life (India) AMC Investments Inc.	Toronto, Canada	27,060	100%
Sun Life (India) Distribution Investments Inc.	Toronto, Canada	10,929	100%
Sun Life (India) Securities Investments Inc.	Toronto, Canada	3,003	100%
Sun Life Securities Inc.	Toronto, Canada	15,162	100%
SUN LIFE ASSURANCE COMPANY OF CANADA – U.S. OPERATIONS HOLDINGS, INC.	Wellesley Hills, U.S.A.	2,674,837	100%
Sun Life Financial (Japan), Inc.	Wellesley Hills, U.S.A.		100%
Sun Life Financial (U.S.) Holdings, Inc.	Wellesley Hills, U.S.A.		100%
IFMG Securities. Inc.	Purchase, U.S.A.		100%
Independent Financial Marketing Group, Inc.	Purchase, U.S.A.		100%
IFS Agencies of Alabama, Inc.	Purchase, U.S.A.		100%
IFMG of Oklahoma, Inc.	Purchase, U.S.A.		100%
IFS Agencies, Inc.	Purchase, U.S.A.		100%
IFS Agencies of New Mexico, Inc.	Purchase, U.S.A.		100%
IFS Insurance Agencies of Ohio, Inc.	Purchase, U.S.A.		100%
IFS Insurance Agencies of Texas, Inc.	Purchase, U.S.A.		100%
LSC Insurance Agency of Arizona, Inc.	Purchase, U.S.A.		100%
LSC Insurance Agency of Nevada, Inc.	Purchase, U.S.A.		100%
LSC Insurance Agency of New Mexico, Inc.	Purchase, U.S.A.		100%
Sun Life Financial (U.S.) Investments LLC	Wellesley Hills, U.S.A.		100%
Sun Life of Canada (U.S.) Holdings, Inc.	Wellesley Hills, U.S.A.		100%
Keyport Life Insurance Company	Wellesley Hills, U.S.A.		100%
Independence Life and Annuity Company	Wellesley Hills, U.S.A.		100%
Keyport Benefit Life Insurance Company	Purchase, U.S.A.		100%
Keyport Financial Services Corp.	Wellesley Hills, U.S.A.		100%
Keyport Ltd.	Hamilton, Bermuda		100%
Sun Canada Financial Co.	Wellesley Hills, U.S.A.		100%
Sun Life Assurance Company of Canada (U.S.)	Wellesley Hills, U.S.A.		100%
Clarendon Insurance Agency, Inc.	Wellesley Hills, U.S.A.		100%
Sun Benefit Services Company, Inc.	Wellesley Hills, U.S.A.		100%
Sun Capital Advisers, Inc.	Wellesley Hills, U.S.A.		100%
Sun Life of Canada (U.S.) Distributors, Inc.	Wellesley Hills, U.S.A.		100%
Sunesco Insurance Agency, Inc.	Wellesley Hills, U.S.A.		100%
Sun Life of Canada (U.S.) Holdings General Partner, Inc.	Wellesley Hills, U.S.A.		100%

AS AT DECEMBER 31, 2001 (in thousands of Canadian dollars)	Address of Head or Principal Office	Book Value of Shares Owned by Company *	Percent of Voting Shares Owned by Company *
Sun Life of Canada (U.S.) SPE 97-1, Inc.	Wellesley Hills, U.S.A.		100%
Sun Life Financial Services Limited	Hamilton, Bermuda		100%
Sun Life Insurance and Annuity Company of New York	New York, U.S.A.		100%
Vision Financial Corporation	Neene, U.S.A.		100%
Sun Life of Canada (U.S.) Capital Trust 1	Wellesley Hills, U.S.A.		100%
Sun Life of Canada (U.S.) Limited Partnership I	Wellesley Hills, U.S.A.		100%
Sun Life Financial (U.S.) Finance, Inc.	Wellesley Hills, U.S.A.		100%
Sun Life of Canada (U.S.) Financial Services Holdings, Inc.	Boston, U.S.A.		100%
Massachusetts Financial Services Company	Boston, U.S.A.		85.2%
MFS Fund Distributors, Inc.	Boston, U.S.A.		100%
MFS Heritage Trust Company	Manchester, U.S.A.		100%
New England Streaming Media, LLC	Boston, U.S.A.		86%
MFS Institutional Advisors, Inc.	Boston, U.S.A.		100%
MFS Institutional Advisors (Australia) Ltd.	Sydney, Australia		100%
MFS International Ltd.	Hamilton, Bermuda		100%
MFS International S.C. Ltda.	Sao Paulo, Brazil		100%
MFS International (U.K.) Ltd.	London, U.K.		100%
MFS Japan Holdings, LLC	Boston, U.S.A.		100%
MFS Investment Management K.K.	Tokyo, Japan		92.6%
MFS Investment Management (LUX) S.A.	Boston, U.S.A.		100%
MFS Original Research Advisors, LLC	Boston, U.S.A.		100%
MFS Original Research Partners, LLC	Boston, U.S.A.		100%
MFS Retirement Services, Inc.	Boston, U.S.A.		100%
MFS Service Center, Inc.	Boston, U.S.A.		100%
Vertex Investment Management, Inc.	Boston, U.S.A.		100%
SUN LIFE OF CANADA UK HOLDINGS PLC	Basingstoke, U.K.	1,084,863	100%
SLC Financial Services (U.K.) Limited	Basingstoke, U.K.		100%
Sun Life Assurance Company of Canada (U.K.) Limited	Basingstoke, U.K.		100%
Sun Life of Canada Nominees Limited	Basingstoke, U.K.		100%
Sun Life of Canada (UK) Group Services Limited	Basingstoke, U.K.		100%
Sun Life Financial of Canada Trustee Limited	Basingstoke, U.K.		100%
Sun Life (Hungary) Group Financing Limited Liability Company	Hrsz, Hungary	806,768	100%
Sun Life Information Services Ireland Limited	Waterford, Ireland	509	100%
PT Sun Life Financial Indonesia	Jakarta, Indonesia	23,931	80%
Sun Life Assurance Company of Canada (Barbados) Limited	Bridgetown, Barbados	24,697	100%
Sun Life of Canada International Assurance Limited	Bridgetown, Barbados	2,477	100%
Sun Life of Canada (International) Limited	Hong Kong	137,435	100%
Sun Life Inversiones S.A.	Santiago, Chile	160,686	100%
Sun Life of Canada (U.K.) Overseas Investment Limited	Basingstoke, U.K.	277,781	100%
Sun Life of Canada (Netherlands) B.V.	Rotterdam, Netherlands	19,555	100%
Sun Life of Canada (Philippines), Inc.	Manila, Philippines		99.99%
Sun Life Financial Plans, Inc.	Manila, Philippines		100%
Sun Life Asset Management Company, Inc.	Manila, Philippines		99.99%

*The book value (in thousands of dollars) of shares and the percentage held are stated at the equity in such investments held by the Company and other subsidiaries of the Company.

Corporate, Investor Relations and Shareholder Information

CORPORATE OFFICE

Sun Life Financial Services of Canada Inc.
150 King St. West
Toronto, Ontario
Canada M5H 1J9
Tel: (416) 979-9966
www.sunlife.com

INVESTOR RELATIONS

For financial analysts, portfolio managers and institutional investors requiring financial information, please contact:
Thomas R. Rice,
Vice-President, Investor Relations
Tel: (416) 204-8163
Fax: (416) 597-9108
investor.relations@sunlife.com

SHAREHOLDER SERVICES

For shareholder account inquiries please contact the Transfer Agent according to the information on the next page. For shareholder related matters please contact:
Jo-Anne Archibald,
Director, Shareholder Services
Fax: (416) 598-3121
English: shareholderservices@sunlife.com
French: actionnairesindividuels@sunlife.com

SUN LIFE FINANCIAL CONTACT LIST

For information about the Sun Life Financial group of companies, corporate news, financial results, your insurance policies (including change of address for your policy), or to receive investor publications please contact:

Canadian Operations

Toronto Office

225 King St. West
Toronto, Ontario
Canada M5V 3C5
Tel: (416) 408-7500
Call Centre:
1 800 SUN-LIFE/1 800 786-5433
Outside of Canada: (506) 862-2197
Mon. to Fri. 8:00 a.m. - 8:00 p.m.
www.sunlife.ca

Montreal Office

1155 Metcalfe Street
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Canada H3B 2V9
Tel: (514) 866-6411
Call Centre:
1-800 SUN-LIFE/1 800 786-5433
Outside of Canada: (506) 862-2197
Mon. to Fri. 8:00 a.m. - 8:00 p.m.
www.sunlife.ca

United States Operations

One Sun Life Executive Park
Wellesley Hills, Massachusetts
U.S.A. 02481
Tel: (781) 237-6030
Call Centre: 1 888 891-8145
Mon. to Fri. 8:00 a.m. - 8:00 p.m.
www.sunlife-usa.com

United Kingdom Operations

Basing View, Basingstoke
Hampshire
United Kingdom RG21 4DZ
Tel: (0870) 160 5040
Call Centre: (0870) 164 6060
Mon. to Fri. 8:00 a.m. - 8:00 p.m.
www.sunlifeofcanada.co.uk

Asian Operations

Hong Kong (Headquarters)
Rm 901-902 9/F Paliburg Plaza
68 Yee Wo Street
Causeway Bay, Hong Kong, China
Tel: (852) 2103-8188
Asian Call Centre: (852) 2103-8988
Mon. to Fri. 9:00 a.m. – 6:00 p.m.
www.sunlife.com.hk

India

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Ahura Centre Tower A
2nd Floor, 96 A-D
Mahakali Caves Road, Andheri (E)
Mumbai, India – 400 093
Tel: (022) 832-6000
www.birlasunlife.com

Indonesia

PT Sun Life Financial Indonesia
World Trade Centre, 8th Floor
JL Jend. Sudirman Kav 29-31
Jakarta, Indonesia 12920
Tel: (021) 521-1428

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100005
Tel: (8610) 6510-2783

Philippines

12th Floor, The Enterprise Centre
Tower 2
6766 Ayala Avenue cor.
Paseo de Roxas
Makati City, Philippines
Tel: (632) 886-6188
Call Centre: (632) 849-9888
Mon. to Fri. 8:00 a.m. – 6:00 p.m.
www.sunlife.com.ph

TRANSFER AGENT

For information on your Sun Life Financial Services of Canada Inc. shareholdings, please contact the Transfer Agent in the country where you reside. If you do not live in any of the countries listed, please contact the Canadian office.

Canada and the United States

CIBC Mellon Trust Company
PO Box 7010
Adelaide Street Postal Station
Toronto, Ontario
Canada M5C 2W9
Within North America:
Tel: 1 877 224-1760 (English)
1 888 290-0048 (French)
Outside of North America:
Tel: (416) 348-9412
Fax: (416) 643-5501
Mon. to Fri. 8:30 a.m. - 6:00 p.m.
inquiries@cibcmellon.com
www.cibcmellon.com

United Kingdom

Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham, Kent
United Kingdom BR3 4TU
Within the U.K.:
Tel: (0845) 602 1587
Outside the U.K.:
Tel: +44 20 8639 2064
Mon. to Fri. 9:00 a.m. - 5:00 p.m.
ssdblueco@capita-irg.com
www.capita-irg.com

Bermuda

The Bank of N.T. Butterfield & Son Ltd.
Butterfield Corporate Services
Box HM 1540
Hamilton, Bermuda
Tel: (441) 298-6461
Mon. to Fri. 9:00 a.m. - 5:00 p.m.

Philippines

The Hongkong and Shanghai Banking Corporation Limited
30/F The Discovery Suites
#25 ADB Avenue
Ortigas Centre, Pasig
Metro Manila, Philippines
From Metro Manila:
Tel: (632) 683-2601
From the Provinces:
Tel: 1 800 1 888-2422
Mon. to Fri. 9:00 a.m.– 5:30 p.m.
www.hsbc.com.ph

Hong Kong

Central Registration Hong Kong Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong, China
Tel: (852) 2862-8628
Mon. to Fri. 9:00 a.m. – 5:30 p.m.
Sat. 9:00 a.m. – 12:30 p.m.
info@centralregistration.com
www.centralregistration.com

DIVIDENDS

Subject to the approval of the Board of Directors, dividends are expected to be paid at the end of each calendar quarter.

STOCK EXCHANGE LISTINGS

Ticker Symbol: SLC
Sun Life Financial Services of Canada Inc., common shares are listed on the Toronto (TSE), New York (NYSE), and Philippine (PSE) stock exchanges.

As of March 31, 2002 there were 431, 711, 299 outstanding common shares, which are the only voting securities.

2002 ANNUAL MEETING

The Annual Meeting will be held on:
Date: Wednesday, June 26, 2002
Time: 11:00 a.m.
Place: John W. H. Bassett Theatre,
Metro Toronto Convention Centre
255 Front Street West
Toronto, Canada.

Design: Crescent Design, Printing: Bowne of Toronto, Photography: Bernard Bohn

Sun Life Financial

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